TAIPAN

FORESIGHT COURAGE PROFITS

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The hidden forces of the market lead investors to profit opportunities

From John D. Rockfeller to J.P. Morgan, these master manipulators made millions moving the market

J. Christoph Amberger

"Somebody knows something," wrote *Taipan's* junior analyst, Brad Colburn, on October 13. "If you're still aware of **KCS Energy Inc. (KCS:NYSE)**, then you know what I'm talking about. Whatever information is being held back must be good. KCS broke above US$8 this morning to hit US$8.09. We're up 215% on the position."

Taipan members were well aware of what was going on. K.J.C. wrote: *"Brad, my holding of KCS is up over 100%. Many thanks!"*

And Debbie F., who signs herself "Little Gal from Iowa," had this to say: *"Wow! Keep 'em coming! Bought KCS at US$5.45 in June and am sitting on a 46% gain today! Better yet, this is in my Roth IRA account. Hope it shoots to the moon someday!"*

Something indeed was up: Volume was spiking all over the place, and the price was moving right along with the volume. The chart looked like a San Francisco seismograph reading.

Then there was this from Siu-Yee Ng, our resident China expert: *"We currently have five open positions with an average gain of 134%, three of which are our Dragon plays: The second half of our* ***China Yuchai (CYD:NYSE)*** *position is up over 416%,* ***Zindart (ZNDT:NASDAQ)*** *is up 60% and* ***LJ International (JADE:NASDAQ)*** *is up over 35%."*

Not to be outdone, Ian Cooper chimed in: *"You've got to love the recent string of gains from our* ***Netegrity (NETE:NASDAQ)*** *and* ***Lexar Media (LEXR:NASDAQ)*** *positions. After selling half of Lexar for 100% gains back on July 30, our free second-half ride on the play is up some 228%. And having bagged and tagged a painless 204% first-half gain on NETE, the free second-half run is up more than 321%. Continue holding LEXR and NETE for further gains."*

In the old days, you'd have said, "Good companies, good stocks." And never once looked at volume. After all, finding a good company was the perfect way to invest. But these were not just good company stories. Our recommendations were made less because of the quality of the balance sheets… than because a reading of flows and confluences identified them within the context of *Taipan's* Dynamic Market Theory.

Let me explain:

over, please…

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Matters of value

People have been investing their money based on "value" for decades. And there may have been a time when this was the way to go. It may still be the case for investors who look at investing much the same way they look at clipping coupons… a prudent if painstakingly slow process of building and preserving wealth.

But the markets have changed. Investing has changed. And the range of new opportunities for making money in the markets has grown to a degree that makes this old, value-centered approach look downright expensive… if you add in the opportunity cost.

Way back in the "old days" (you may remember, those bygone days when your faithful correspondent still boasted a hairline to speak of and cars were started by turning a key in the ignition, not by a computer chip masquerading as one), investors put money into stocks, bonds and real estate—their homes, or maybe even some kind of investment property like an apartment building. Specialists invested more heavily in one particular sector, like real estate, bonds or commodities. But, in general, investors stuck to these areas.

Making money has changed forever

Stocks were buy-and-hold affairs. Most investors bought the big stocks and held on for many, many years, more often than not for the dividends and stock splits. Bond investors bought the bonds they liked and held them for the interest. These were long-term strategies—with the results tallying up over years and years.

But the psychological factors that drive the markets were always a reality. From the railroad boom of the late 1800's, to the radio stocks of the 20's, to the Nifty Fifty of the 70's, to the Internet stocks of the late 90's.

Problem was, no one paid much attention to them. *But the market's every movement has always had more to do with psychology and money-flow than with any measure of fundamental value.*

Now, don't get me wrong here. Our *Taipan* editors know value. We know what to look for and how to calculate value according to classical analysis. In fact, some of our researchers actually have Graham and Dodd's "Security Analysis" sitting right on their desks. And they can discount cash flow and calculate a forward P/E. But over the past decade and a half, as *Taipan* has scouted the markets for profit opportunities, we've found one thing to be true: these skills don't amount to a hill of beans when it comes to making money in the stock market.

If they did, Yahoo wouldn't trade for 18 times its revenues. And General Electric wouldn't trade for nearly twice its growth rate.

Nowadays money flows fast. You can invest in stocks through indices and funds. You can invest in bonds through publicly traded funds. You can invest in real estate through funds. Money is much more liquid. It can flow in and flow out at tremendous rates. And psychology has become an even greater factor.

Stocks, after all, are a means to an end. For investors, brokers, corporate insiders, fund managers, investment bankers, financial journalists, market makers and venture capitalists, all stocks ultimately mean the same thing: making money.

The market's history points to large-scale manipulation

In the late 1700's, the new US government began selling bonds to raise money, and financiers started raising capital to found banks and businesses by selling shares to the public. On Wall Street in New York City, the tobacco and fur merchants who gathered on the street started selling these stocks and bonds.

And so the merchants became brokers, and they began to gather under a large sycamore tree (known locally as a buttonwood tree) in front of 68 Wall Street in New York City.

On May 17, 1792, twenty-four of these brokers signed the Buttonwood Agreement, organizing their trading and essentially creating the New York Stock Exchange. A year later, the group moved to its permanent quarters at 40 Wall Street.

That was where the American financial markets began—the beginning of what was to become the largest, most sophisticated collection of financial markets in the world. Between the NYSE, the AMEX, the NASDAQ, and the Chicago futures and options and commodities markets, there are now trillions of dollars traded in the financial markets. On the NYSE alone, there is trading on roughly 3,000 companies worth some US$10 trillion.

In the beginning, an individual could buy shares in a company and invest for the future. Or speculate on rapid growth. Everyone was on an equal playing field. But it wasn't long before bigger players figured out they could manipulate the markets.

In fact, some of the so-called "great men" of history were notorious market manipulators. Andrew Carnegie, Cornelius Vanderbilt, J.P. Morgan, John D. Rockefeller, Joseph P. Kennedy and Bernard Baruch all had their way, fleecing investors in the markets.

But by the early 1900's manipulations moved from individual stocks to the entire market. Rockefeller and Harriman and their cronies made fortunes pushing a bull market to a frenzied peak… and selling off at the top, just before a 48% decline.

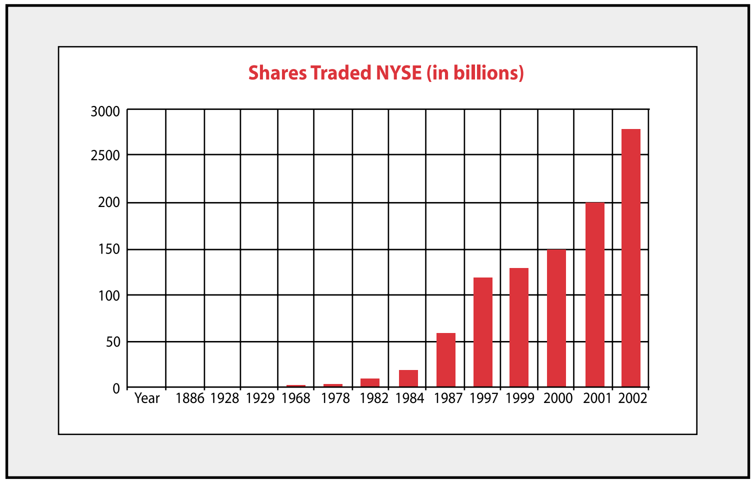
In the 1920's, publicity helped move market manipulations to a larger scale than ever before. A congressional investigation found that in 1929 alone, 107 of the most prominent stocks on the New York Stock Exchange had had their prices manipulated. But that was just the tip of the iceberg. Manipulation was rampant. And legislation was enacted in 1933 and 1934 to put an end to it.

Legislation may have ended the worst financial manipulations (obviously, not all—we know from the Enrons and WorldComs of the last few years that it's still going on). But the individual investor today is still at a complete disadvantage. When we buy shares, we're at the mercy of insiders who trade with the benefit of information we don't have, institutions that pump up share prices only to dump their holdings at obscene profits, and brokers and analysts who push stocks for their own reasons.

Worst of all, the financial markets have become dominated by institutions. They can afford think tanks to do their research, they can afford huge computerized systems to do their analysis, and they can actually move and manipulate the markets at will.

In other word, the markets are stacked against the individual investor. Institutions, and small groups and powerful élites, control the markets and purposefully accumulate most of the money that's generated. For the individual trader, that means someone else is always in control of where the money is flowing.

Just look at this chart showing the historical growth of the number of shares traded:



As you can see, the lion's share of the trillions of shares traded has all come since 1982. Billions of shares are now traded every single day. Stocks are traded like commodities, and the individual investor is lost in a sea of powerful interests that move the bulk of these shares.

The only way you can ever hope to make money in the market is to understand what really moves it. That's the work we've done. Our *Dynamic Market Theory* reveals that there are three hidden forces that move the market: manipulation, powerful behind-the-scenes interests like institutions, and the commoditization of stocks.

Of course, our Theory wouldn't be complete if we couldn't offer you ways to profit from these hidden forces. The way to start is to follow the money, or better: let big money currents point the way to opportunity.

In this month's issue, our Board of Editors will show you exactly where the next opportunities will arise in domestic and international stocks.

You can decide for yourself which of these plays are right for you. The point is, making money in the market these days means having a multitude of ways to see where the money is flowing.

Let's get started with Chris DeHaemer's look at emerging markets:

over, please…

The scourge of Asia is leaving:

Buy this fund and make 280% over the next two years


Chris DeHaemer

I was surprised the other day when I read that Mahathir Mohammad, globalization pariah and nut-job of Malaysia, was stepping down as leader.

Back in 1998, when the famed "Asian Contagion" sent emerging market currencies into the black pit of Hades, Mahathir was the only leader who ranted about evil western influences in general and Jews in particular. Every time he gave a speech that hot smoggy summer, his currency would fall 10% and his stock market 20%. It took one of his advisors showing him charts coinciding with his speeches to get him to stop.

But it was too late. Dr. Mahathir froze the ringgit, banned foreign investment, and arrested his chief lieutenant, Anwar Ibrahim, who was subsequently jailed for 15 years on trumped-up corruption and sodomy charges.

You can't fight the market

In the long run, the currency controls didn't work. Malaysia has fallen behind South Korea, Thailand and Singapore, whose stock markets are up 51%, 82% and 46% this year.

But something funny happened on the way to the forum. Underneath his blustering anti-capitalist rhetoric, Mahathir has built a country to rival Singapore.

Malaysia's industrial production index bounced up sharply in August, rising by 6.7% from August 2002. As expected, the manufacturing sector drove most of the gains with a 7.6% spike. And just as Singapore and other countries have witnessed an improvement in their export markets, Malaysia has enjoyed stronger demand from the US for chips and semiconductor equipment, which helped to spur factory production.

In fact, Standard and Poor's has raised Malaysia's long-term credit rating to investment grade A–. The Kuala Lumpur Composite (KLSE) is up 30.29% for the year. All this, and nobody knows it's happening.

Hated in the West

The simple fact that Mahathir will step down should add 10% to the KLSE. He is hated in the West. Foreign investors, including those at the IMF, the World Bank and the US Treasury, were big fans of the now incarcerated Anwar's Chicago School ideas of emerging-market progress. Ideas like privatization, low taxes, low corruption, transparency and less government regulation. Mahathir, at least on the surface, was against this now dominant wave of global economic change.

On October 31, Abdullah Ahmad Badawi will take over. The bet is that this smooth transfer of power will boost the influx of foreign funds into the local bourse. The KLSE Composite Index could jump to around 880 points over the next six months. Mr. Badawi is actively courting foreign investment in an effort to return Malaysia to the pre-1998 market environment. (The KLSE's all-time high of 1,314 points was in 1993.)

Buy MF under US$5.50.

There are several plays on this, including the **Malaysia Fund (MF:NYSE),** which is probably the easiest way to play the field, if not the most profitable.

MF has been in a solid uptrend for the past six months. It is a buy under US$5.50. It currently trades at US$5.25. NAV is US$5.85. 97.6% of its assets are in Malaysia. Contact: Yogesh Modak, Morgan Stanley Dean Witter, 1221 Avenue of the Americas, New York, NY 10020.

Homegrown blue chips

Over the past two months, I have been harping on the decline in the US dollar. Over that time we've picked up a number of commodity plays like Phelps Dodge (PD:NYSE), up 22.7%, to complement our small-cap tech stocks such as Netegrity (NETE:NASDAQ), up 321%, and Lexar (LEXR:NASDAQ), up 228%.

The great thing about currency moves is that they happen over a long period of time. These continental shifts usually take an entire economic cycle to reverse. Even though we are two years into a falling dollar, we will likely have another three to five before the trend reverses. Every market overshoots the extremes, but most don't provide such ample opportunities for latecomers.

Obviously, the ones who are quick to understand these shifts make the biggest gains. That said, you shouldn't underestimate the slow, plodding joys of progressive accumulation. I'm talking about buying and holding emerging-market blue chips. In my exclusive investment service—*The Red Zone of Profits*—we've been holding our emerging market plays in Chile and India since July… and they just keep going up.

Not that you'd hear mention of these plays in the mainstream media.

You won't hear Chile, India or Malaysia mentioned on CNBC, because there are plenty of profits to be had in the US markets—for now. But what happens when the falling dollar starts to affect domestic consumers? Over the past few weeks, I've been talking about Black Monday—October 17, 1987, when the Dow fell 22% in a day.

Black Monday delayed

A repeat of that fateful day is not likely to happen this year, as the NASDAQ just broke a major resistance point at 1,944 and we have another leg up to 2,000. But then again, you never can tell—it's always a good idea to hedge your bets.

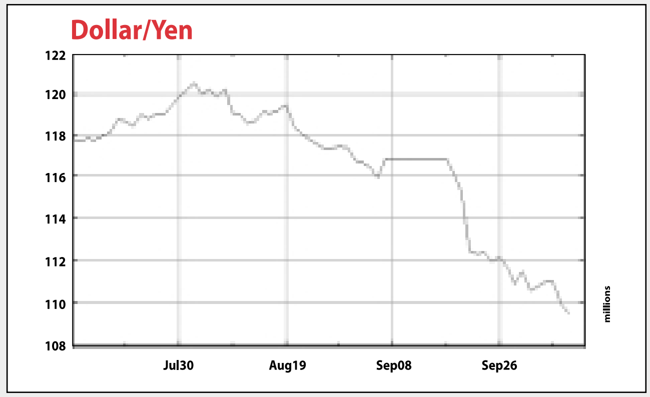
The most likely culprit of Black Monday 1987 was a lack of faith in the US dollar. There were other similarities with today: rising trade deficit, rising national debt, a turnaround in mortgage rates, a 25% gain in gold, and a spike in market values.

History never repeats itself. Things are different now. There are curbs in place that limit the speed at which the Dow can fall. But there are no curbs in the currency markets, and a "controlled descent" more often than not results in carnage.

The Bank of Japan fails

The BOJ has tried unsuccessfully to stop the falling dollar at 110. The dollar hit 107 before bouncing back. This is down 25% from the top two years ago, when the dollar bought you 135 yen.

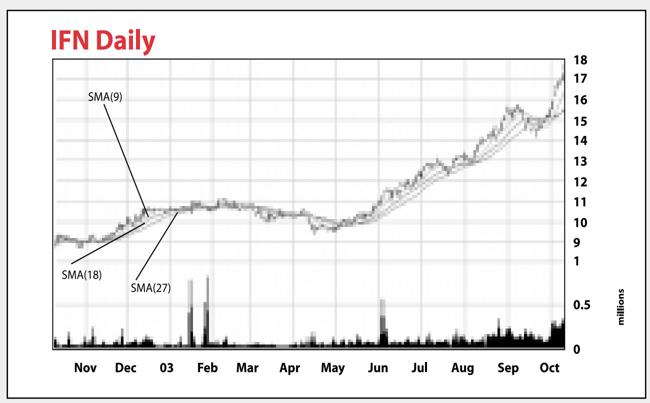
In my mind, our next stop is at the 100 yen per dollar parity level that was much ballyhooed back in the late 90's. It is likely that we are heading toward 85 yen to the dollar.



Get thy cash offshore

This means that you absolutely must get some portion of your money out of US equities and into emerging markets. And not just any emerging markets, but emerging markets that don't sell primarily to the US, or that have some base commodity that can be termed a hard asset. That leads us to Malaysia and India, and will likely lead to a great many more places before this trend has played itself out.

India Fund



The India Fund (IFN:NYSE) is a closed-end fund. It has been buying back shares in an effort to bring the share price up to the current net asset value (NAV) of US$18.69. Today it traded at a 6% discount to that, at US$17.60.

over, please…

Emerging-market funds sometimes trade below the combined value of their stocks, or NAV. However, it is not uncommon for funds to greatly exceed NAV when they become market darlings.

The India Fund was up 5% for September, falling below the Indian market by half a percent. The Indian market or SENSEX is up 58% year-to-date. This growth has been driven by the US$3.9 billion invested by foreigners since the start of the year. Further explanations for this bullishness include a satisfactory monsoon season and a government keen on privatizing.

India's GDP growth hit 5.7% in Q2, up from 5.3% in Q1. Real-estate prices grew 7%, and the rupee should appreciate against the dollar over the next 18 months. There looks to be strong growth going forward. As far as value goes, you get a severe discount from the S&P 500's P/E of 33—the SENSEX has a *forward P/E of only 10.69.* You would expect some discount for going offshore... and here you get one.

Buy the India Fund (IFN:NYSE) under US$19 and let it ride.

The S&P continues to drop the best market hints

Make another 300% as the SPX rallies up to 1,176 by Christmas

by Adam Lass and Bryan Bottarelli

Finally, American business has stopped forking over the largesse the Fed and Treasury have been bestowing upon it—in the form of nearly negative interest rates, willful depression of the dollar and daily multibillion-dollar exchanges of worthless bonds for somewhat less worthless cash—directly into the bank accounts and summer homes of CEO's, board members and "regulators."

Instead, it has decided that maybe, just maybe, a little reinvestment in physical production capacity might be called for. While a genuine capital spending recovery may yet be a ways off, the numbers coming in for the tail end of summer show at least a slowing in the eight-month, 16.1% decline in machine tool orders, with August's orders of US$150.99 million coming in 16.55% higher than July's figure of US$129.55 million.

For the uninitiated, machine tools are the great big gizmos employed to grind out the stuff folks actually use. The orders for same are a popular leading indicator for those who cling to such reports. And indeed, if orders for this sort of heavy equipment are up, perhaps the need for lever pullers and forklift drivers will soon increase as well.

A back-handed thank you

Another gift for those with their cash on the long side of the scales is the modest US$0.11 drop in gasoline prices over the past two reporting periods—though once again this is a mixed bag of news, as the same Lundberg survey notes that nationwide prices are still up about US$0.12 year over year. (Anyone besides me notice that one of the newly reconstituted Iraqi petroleum authority's first official acts was to announce its intention to rejoin OPEC and support any and all efforts on the part of that austere body of parasites, nepotists and permanent dictators to keep oil above US$35 a barrel? A dubious thank-you gift, at best, while our soldiers continue to die daily on Iraq's dusty highways.)

But as long as the prices at the pump stay in this vicinity, a major driving force of apparent inflation remains in check... allowing the government to continue running its printing presses at full speed from now till election day. Thus, mortgage rates are down again and the already 15% overpriced housing boom keeps rolling along.

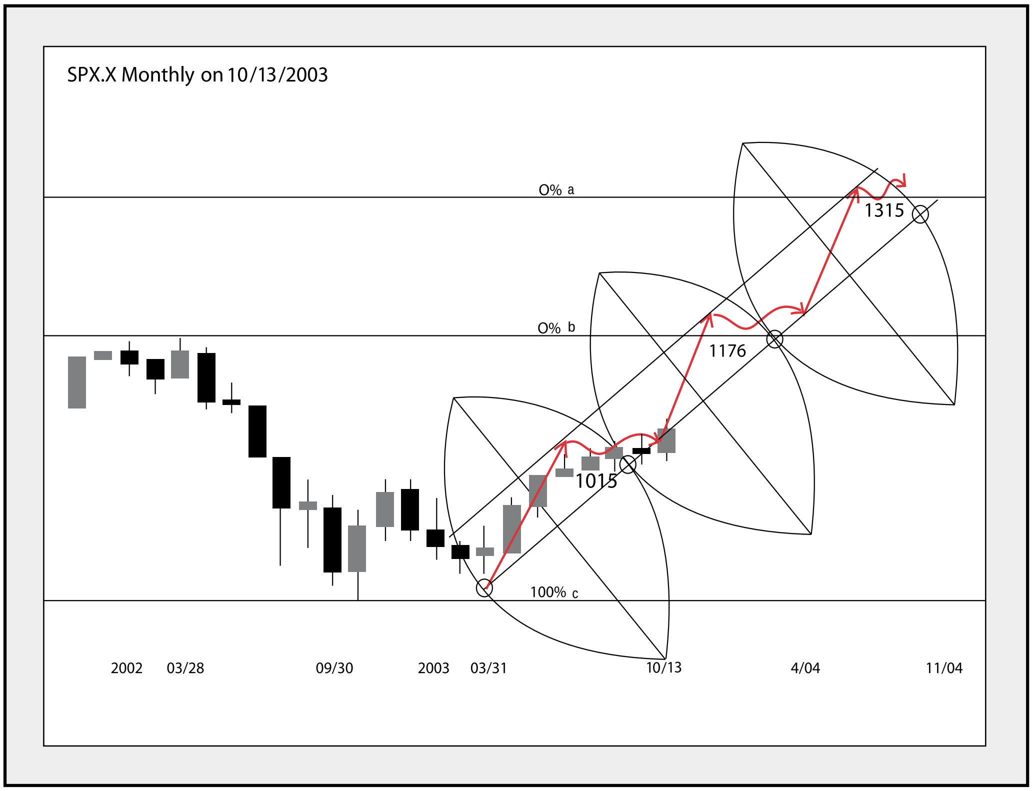
Indeed, one could easily view the current economy as a race to the finish (the election) between recovery and inflation, which simply comes down to the amount of dollars in circulation versus the economy's ability to back those dollars with production of saleable—and indeed selling—goods.

Blessed myopia

But do threats such as a debased currency and a ballooning deficit (now estimated at US$400 billion for the recently ended fiscal year) that continue to loom on the distant horizon truly matter to the bold and agile investor? Or are these rumblings so far off in the future that any discussion of them verges on philosophical argument: “How many economists can dance on the point of your PDA stylus?”

After much thought, the best answer I can muster is that the truly dynamic trader notes the threats in the distance, buys a few long-dated puts against the S&P (December ’04s sound about right), and doesn’t worry about it anymore—focusing instead on the myriad short-term profitable opportunities that abound in a market distorted to this extent.

The upstroke commences



In this spirit, we would like to note that the S&P 500 continues to climb… just as we predicted in the past two issues of *Taipan.* As we write, the index has cleared the hurdles at 1,008 and 1,116 noted in the weekly chart we posted in September, and has begun the climb to 1,176 cited in October’s monthly chart. There are some 35 points remaining till it hits that plateau.

Up is up and gains is gains

This continuing rise has already netted significant gains. First, we recommended buying the **S&P Spiders (SPY:AMEX)** for US$99.50 and then again for US$102.00. As I write, the Spiders trade for US$104.94, giving you a gain between 2.85% and 5.4% over the course of a few months—a modest but decent profit, considering the durability of the asset. Of greater interest to the trading population would be the more sizable 49.25% profit on our **SPX December 1100 Calls (SPT LT)**, which we sold via the *247profits e-Dispatch* on October 3.

Looking ahead, we’d like you to maintain your long position in SPY, as it provides a solid base asset at this time. From a trader’s point of view, however, the more sizable opportunity is another timing play using SPX options.

To begin with, should more than 20 of the aforementioned 35 upside points remain by the time you read this, you could simply repurchase SPX December 1100 Calls (SPT LT) below US$9.00. This would represent a relatively low-risk, short-term means of capitalizing on the rest of the move to 1,100.

But the chart included with this article indicates that the full move ought to run as high as 1,176 before plateauing. If you are looking for a longer-term play with greater profit potential, we recommend giving yourself additional time, in the form of a later expiration date, while mitigating the additional cost by adding some extra headroom in terms of price.

Buy the SPX March 1150 Call options (SPT CJ) between US$9.00 and US$10.50 per contract, good for the month. As a reasonable price estimation, a move up to SPX 1,176 would put these calls at US$42.00 per contract, for a gain of 300% in the next 4-5 months.

over, please…

China Yuchai up 416%, Zindart Ltd up 60% since June and LJ International up 35% since August...

Now here's one more Dragon play that could easily double!

Siu-Yee Ng

Unemployment remains high in the US, with a depressed manufacturing sector. And with presidential elections coming up sooner than you think, the Bush administration and businesspeople alike are losing no time in blaming this problem on a new villain—China and its currency.

You see, the Chinese currency has sat at around 8.3 yuan to the dollar since 1994. This has given China a competitive advantage by making exports cheap. Although consumers have benefited from cheap Chinese goods, US workers complain that China's pricing advantage is taking away their jobs.

One proposal is to impose a tariff on Chinese exports. The other option is for China to drop its currency peg to the US dollar. Either option could have detrimental consequences. Not only would consumers shell out more money for a pair of shoes or a computer, but it would also depress corporate earnings, since companies have benefited from cheap Chinese labor and parts.

In the near term I predict the US will do little to jeopardize its alliance with China against North Korea. So what I want to do is position you to take advantage of the growing Chinese economy.

Our three Dragon plays have already gone through the roof. After we sold half our position in **China Yuchai (CYD:NYSE)**, the other half is sitting on a nice 416% profit. **Zindart Ltd (ZNDT:NASDAQ)** is up 60% since June, and **LJ International (JADE:NASDAQ)** is up 35% since August!

I want to add one more Dragon play to our portfolio. We've made a huge killing on China Yuchai by taking advantage of China's improving infrastructure. So this month's stock is another play on this. More about that in a minute.

East meets West

China's main center of economic activity is its eastern coastline. So a railroad system was built between Guangzhou and Shenzhen as part of the original "Canton-Kowloon" railroad, which began operation in 1911.

In 1984, to exploit the rapid growth in the Pearl River delta, the **Guangshen Railway Company (GSH:NYSE)** was formed as a state-owned enterprise.

It was only a single-line railroad at that time. Since then, facilities and services have improved. A second line was completed in 1987.

In 1991, Guangshen Railway Company began the construction of a high-speed rail line. This line was the first of its kind in China. Service was launched in December 1994.

On March 6, 1996, Guangshen Railway was established as a joint stock limited company. Under the terms, 2,904,250,000 "state legal person shares"—generally referred to as "domestic shares"—of Guangshen Railway were issued to a state-owned enterprise under the Ministry of Railways of the People's Republic of China. Under PRC law, domestic shares may be owned by or transferred to PRC entities only.

In its May 1996 initial public offering, Guangshen Railway issued a total of 1,431,300,000 H shares, of which 217,812,000 were listed on the Hong Kong stock exchange. The remaining H shares, equal to 24,269,760 American depositary shares, or ADS's, were listed for trading on the New York Stock Exchange. Each ADS represents 50 H shares.

Trains, planes, automobiles

Trains are a pretty good way to travel in China. As long as you're not in a rush, the train is so much cheaper that taking a plane. And for me, it's always nice to be able to take in more sights. Driving is a pain, since some roads are still unpaved—or not even built yet.

There are 26 stations on Guangshen's rail line, providing passenger and freight transportation services for cities, towns and ports situated between

Guangzhou and Shenzhen in the Guangzhou-Shenzhen corridor and Hong Kong.

Guangshen Railway Ltd is principally engaged in railway passenger and freight transportation and related services and businesses. It is the first and currently the only enterprise in the PRC railway industry with shares listed in Hong Kong and New York.

Quicker is better

Buses are still a popular means of travel in China because of their low cost and frequent departure times. But as China's economy continues to grow, more people will opt for quicker and more comfortable ways of traveling, whether for pleasure or work.

In 2002, Guangshen began a project to make its high-speed train service line as convenient as buses. The company calls it the "As-Frequent-As-Buses" Train Project.

The company continues to improve its service, establishing a Dynamic Ticket Management System for the Guangzhou-Shenzhen route and building the West Ticketing Hall in Shenzhen Railway Station—the first computerized railway-ticketing hall in China. The Dynamic Ticket Management System allows passengers to reserve specific seats on trains along the Guangzhou-Shenzhen route.

SARS fear

In 2002, Guangshen trains served approximately 39.8 million passengers. That's an increase of 2.4% compared to 2001. Passenger transport revenues increased 29.5% for the same period.

But in the first half of 2003, the total number of passengers declined 14.1% from the same period of last year. This was because of the SARS outbreak.

In the freight transportation segment, the company recorded a decrease of 17.6% in outbound freight and a slight decrease of 2.1% in inbound and pass-through freight from the same period last year. The total revenue generated from freight transportation decreased approximately 8.2%. Overall profit from operations in the first half of 2003 declined 46.4% from the same time last year. Revenues declined 14.3%.

In the past, the company has typically paid a dividend. But because of the decrease in revenues due to the SARS outbreak, the board has opted not to pay a dividend for the first half of 2003.

But business has started to recover in the second half of the year. Revenues are improving, and the company is implementing measures to combat SARS in the future.

Guangshen Railway Company (GSH:NYSE) is a buy under US$14.25.

Greenspan's Last Hurrah:

What to buy as the US economy gets back on track


Briton L. Ryle

I have to admit, this is impressive. Recent data show that the economic recovery is actually creating jobs.

The jobless rate hasn't been affected yet, but if the current trend holds, it might move in November. And if the monthly unemployment rate can make even a moderate drop—to, say, 5.7% or 5.8%—Alan Greenspan will be able to retire a hero.

Of course, Greenspan hasn't done it alone. The Bank of Japan has pitched in. And the injection of around half a trillion dollars into the money supply (so far this year) certainly hasn't hurt. But he gave the green light, as it were.

When you really think about it, with half a trillion dollars flying around, somebody better be getting a job. In fact, there ought to be a lot of jobs out there. High-paying ones, too.

But it's probably hoping beyond hope to think this recovery will last.

Because, ultimately, this recovery is being bought with excess liquidity. It's a lot like refinancing a mortgage—you get some pocket change, but you haven't created any long-term income. Unless you used the money to buy stock eight months ago. Then you're probably about ready for a whole new mortgage.

Market timing

I'm not going to spend much energy on the whole "you can't time the market" argument. You

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might as well try and convince me that the earth is flat. Market timing doesn't have to be complicated. For instance, it's well documented that buying stock in November and selling it in January has beaten straight buy-and-hold investing by an average of 25% over the last 75 years.

Now, I'd like to take a moment to suggest that this little pearl of statistical wisdom could prove especially true this year. In fact, I've already got my countdown started—we've got 48 trading days to go before I sell everything.

But don't panic. We've still got two months of bull market to enjoy. And hopefully you've been enjoying the gains from my October recommendation, **Terayon (TERN:NASDAQ).** Within days of buying this stock between US$5.80 and US$6, Terayon landed a big contract with Comcast. The stock's up 30% from our entry as I write.

I'm still thinking Terayon will hit double digits before the year is out. And with luck, we'll be selling **Petrochina (PTR:NYSE)** and **King Pharmaceuticals (KG:NYSE)** for some pretty hefty gains this holiday season, too. But that's December's article. I'm writing for the here and now. And right now, we're looking at a two-month ramp job.

Fire my imagination

When dealing with speculative manias—and there can be little doubt we're in the midst of one, for even if the economy can manage to grow at 4%, stocks are still very expensive—you have to keep an eye on the "Great Unknown."

Every mania has one. Whether it's radio, railroads, or the Internet, there has to be a Great Unknown—some imminent, unrealized event that's waiting right around the corner to catapult economic activity, and therefore stock prices, into the stratosphere.

Right now, the Great Unknown is the economic recovery. How big will it be? How long will it last? Will corporations buy new computers? Who knows? But it should be no problem to take profits at the top, after all these questions are answered, right?

It's not where you go...

The funny thing is, the numbers that underpin a speculative mania are usually pretty good. In 2000, GDP growth hit 6.4%. The jobless rate was 4.25%.

The company whose stock I'm going to recommend did US$1.7 billion dollars in sales in 1998. By 2000, sales had nearly doubled to US$3.3 billion.

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That's huge growth, no matter how you look at it.

Now, this company is expected to do under US$1 billion in sales this year. How could earnings have ramped up and then cratered in so short a time? You guessed it—the telecom bust. But with the notable exception of Lucent (LU:NYSE), telecom equipment stocks have been doing pretty well lately.

What's more, in 1998 this stock traded between US$20 and US$40 on a split-adjusted basis. Today, it trades for US$8. Incidentally, 1998 was also the year the NASDAQ broke above 2,000 for the first time.

The caveat

Of course, those crazy years were just that, crazy. And I'm not trying to make the case that telecom stocks—or any others, for that matter—are headed back to their glory days of revenue and earnings growth. Considering that this stock, **Tellabs (TLAB:NASDAQ),** did just US$1.3 billion in 2002, and is on pace to drop below US$1 billion this year, I'd be a dang fool to come out and forecast that revenues were going to get back to US$3.3 billion any time soon.

However, I will say that Tellabs is poised to surpass next year's revenue estimates of US$1 billion by a comfortable margin. And with over US$1 billion in cash and zero debt, the company is in good financial shape.

But here's what's really got me thinking that there's more to Tellabs than meets the eye: Tellabs business generated US$120 million in free cash flow in Q2 of 2003. I mean, the company posted a net loss per share, officially, and yet they generated US$120 million in free cash flow? Hmmm… I smell a tax dodge.

And if that's true, Tellabs is going to be showing a profit sometime next year.

I consider Tellabs a strong speculative buy on the continuance of the current rally. If you can get in at US$7 a share, 50% to 60% gains by the end of 2003 could be achievable.

A change of fortune—and a 62% profit


William Colburn

I love it when things turn around for you. One minute you think you're about to fold under the weight of the world, and then it happens. Angels sing. You're engulfed in golden light and you find out everything's going to be OK.

Well, this epiphany may have just occurred for a stock I wrote about in the June issue of this profitable periodical. The stock is **EntreMed (ENMD:NASDAQ)**, and they manufacture Panzem. Panzem cuts cancer off at the knees by denying it two survival musts: a healthy blood supply and tumor cell growth. Take a look at the June issue of *Taipan* if you need a refresher course in the particulars.

Shortly after that issue came out, ENMD shinnied down a bit

over, please…

from our original buy target of under US$3.50. Volume fell off the chart. For a brief moment, ENMD seemed like a lost cause. Then, on September 9, the company made an announcement: ENMD had agreed to give Oxford BioMedica Plc exclusive worldwide rights to develop the localized delivery of two gene targets as a possible treatment for loss of vision.

Switching the lights back on

Oxford BioMedica will use EntreMed's endostatin and angiostatin genes in its proprietary therapeutic RetinoStat program. RetinoStat is a LentiVector gene delivery system expressing an angiostatic gene under the control of the company's proprietary hypoxia response element gene switch. RetinoStat is currently in preclinical development. Besides an initial cash payment, ENMD may collect up to US$10 million on the achievement of regulatory and clinical milestones and royalties on sales of products resulting from the agreement.

The new money flow adds to ENMD's already impressive financials. For the six-month period ending June 30, 2003, revenues increased 117% to approximately US$800,000 from US$370,000 for the same period in 2002. The increase resulted primarily from a grant received to support Endostatin Phase II clinical trial in patients with neuroendocrine tumors, as well as from contract revenues earned as a subcontractor under an NIH sponsored malaria vaccine program.

If you go back to the June issue, you'll notice Siu-Yee Ng's supplemental article about ENMD. Talking about the trip she took to ENMD headquarters, which is a 45-minute drive from the *Taipan* headquarters, Siu-Yee said:

"It seemed as if they were spending more dollars on PR than on research."

I think ENMD has changed its tune. From inception through June 30, 2003, ENMD incurred research and development expenses of approximately US$214,551,000. Included in this amount are the expenses related to their three clinical product candidates, Panzem, Endostatin and Angiostatin.

ENMD's 2003 R&D expenses for the period ending June 30, 2003 were US$6,550,000.

Research and development expenses for the comparable 2002 period were US$18,171,000. The decrease reflects refocusing and elimination of some programs and an associated shift in emphasis from protein product candidates.

2003's numbers look like money well spent. Especially the reallocated research numbers. ENMD has now upgraded Panzem to what one might call "Ultimate Panzem." The company expects to send the reformulated drug into new clinical trials early next year. The new version, to be administered orally, is designed to increase the amount of Panzem that circulates in the patient's bloodstream by improving absorption of the drug.

So I'm of a mind to say that ENMD could be looking at another run for the top. I don't know if US$26+ is in the works, but you never know. As far as I can see, the turnaround has already started.

I hope you're still holding ENMD. It's a good time to be in this stock. ENMD is currently trading for about US$5.56. You're already up 62%. **Hold on tight because everything seems to be going well.**

Golden light and singing angels, my friend. ■

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