TAIPAN

FORESIGHT COURAGE PROFITS

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INSIDE:

Beating the Bear with Taipan's worldwide profit plays:

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URGENT:

This issue went to print the day the World Trade Center towers in New York were destroyed by terrorists.

It is imperative that you obtain the most recent updates on our recommended investments and strategies—either on www.taipanonline.com or from our Daily e-Dispatch. Please go here to sign up: www.taipan online.com/urgent_dispatch.html

Golden jonquils:

Who needs a bull market anyway… when there's plenty of opportunity to make money all over the world!

by J. Christoph Amberger

When the Dow dropped 200+ stomach-churning points in 3 hours in early September… and the NASDAQ headed into numbers woefully reminiscent of the early settlement dates of the American continent… I thought of golden jonquils.

In the Ozarks, hopeful homesteaders used to plant golden jonquil bulbs around their front doors… These flowers keep arriving each spring. Often, they rise around bare foundation stones deep in a deserted stretch of sky-high oak woods… symbols of peace and hoped-for prosperity that "bloom sunshine yellow against a sea of green."

In his latest book, *"Country Living is Risky Business"* (Loompanics, 2000; US$13.56 from www.amazon.com), my friend Nick Evangelista muses about the shattered dreams and ambitions that are evidenced by these empty, deserted farmsteads:

"Where did these people go? Where did their dreams disappear to? What sent them spiraling down to disaster and abandonment? When does a shout of assurance become a hollow cry of enough is enough?"

I look at the NASDAQ and I feel an inkling of that pain. And if that doesn't do the trick for you, look around yourself. In particular, take a gander at the recent credit card debt write-offs of major commercial banks.

Plague of the Black Debt

The Federal Deposit Insurance Corp. recently reported that commercial banks wrote off US$2.8 billion in credit card debt in the April-June period—up a staggering 27% from a year earlier.

Now, let's get that straight. Banks still earned a whopping US$19.2 billion in 2Q. That's down maybe 4% from the record profits of the first three months of the year—but it's still up 31% from US$14.6 billion in the second quarter of 2000, the preliminary results showed.

AP reported that bankruptcy filings by U.S. consumers and businesses leaped 24.5% in the April-June period, according to the Administrative Office of the U.S. Courts. There were 400,394 new cases filed during the period, the highest quarterly total ever. Of those, 390,062 were filed by individuals.

This means that bankruptcy filings are now on track to surpass the record-breaking year of 1998, when 1,442,549 new cases were filed, according to the American Bankruptcy Institute. All the while, the amount of income Americans are dedicating to making payments on consumer debt is at levels unseen in 15 years.

And there's another ill omen: mortgage delinquencies also are rising. The percentage of Americans behind on home mortgage payments has increased to 4.63%.

But what does it all mean?

Half of the bulletins and editorials I am reading these days bemoan

(over, please...)

TAIPA N

Publisher:
J. Christoph Amberger

Editors: Christian DeHaemer, Brian Hicks, Siu-Yee Ng, Briton Ryle, James Passin, Bryan Bottarelli, Eric Lapp

Managing Editor:
Ned Humphrey

Webmaster:
J. Vince Skelley

Art: J. Lindsay Willey

Fulfillment: Tracey Holman

Tours and Conferences:
Barbara Perriello

Customer Care:
Call (410) 234-0691
9 a.m. to 5 p.m. Eastern Time

email: editor@taipanonline.com

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T #123384745

www.taipanonline.com

USERNAME:
taipanmember6

PASSWORD:
6monkeys

America's rising levels of personal debt. Editors build intricate causal strings based on it, inevitably involving bank runs and the collapse of the mutual fund industry, all within the next six weeks.

I have to confess, sometimes they're very convincing. In fact, I'd be a believer by now if it were not for one simple fact. *I've read the same dire predictions from the same editors since at least 1989.* Then again in 1992… 1995… 1997… 2000. And I'm still waiting for the other shoe to drop. I am sure I will be waiting for another decade…

Because personal debt (or the lack thereof) really has little to do with how the markets work. If the personal savings of an individual in any given industrial nation were an indicator of that market's profit potential, we'd all be lining up outside the Frankfurt, Zurich and Tokyo stock exchanges!

Doom and gloom

But the professional doomsday profits are getting one thing right.

In a market whose mood swings make postpartum depression seem like an evening of Scrabble with your accountant… when even the Dow can gain and lose more than 200 points within a six-hour spell… investors must come to terms with one simple fact:

The days of "buy and hold" investing are very, very over.

If you want to come out ahead in this market, you need to be mobile, motivated and disciplined. Maintain a healthy emotional detachment from the stocks you buy… and be ready and willing to get rid of them at the drop of a hat.

After all, every 200-point rise and fall spells a double 200-point profit opportunity for those who know where to look… *and have the guts to take profits whenever they make them.*

Managing risk

The simplest way to do this is to establish a trailing stop strategy. I know I've told you the exact same thing a thousand times before. But we at the Taipan Group generally recommend you observe a -20% trailing stop on all your investments, which limits your loss and helps you lock in as much of any potential gains as you can.

Just take our latest play on Kazakh oil production: Nelson Resources (NLG:CA) hit our stop loss in early trading on September 6, as it blew past C$0.40. (We had repeatedly alerted you to the C$0.40 stop loss in the daily Taipan Group's 247profits e-Dispatch.)

Taipan members were able to get in on this position back on February 26, when the March issue of our Members Only newsletter was released on taipanonline.com.

Which means this stop loss locked in gains of about 54% in six months.

Have we written off Nelson? Not by a long shot! But we think there's going to be plenty of opportunity to get back in at lower levels in a few weeks.

Bull markets are born out of recessions

But then, who has the time to wait for a recession to run its course?

Taipan's philosophy is that there's always an opportunity to make exceptional stock market profits… independent of where the domestic indices are headed. We have been doing this since 1988… for 14 years straight! (In fact, with this issue, we're wrapping up our 14th volume.) This year, we've proved it again by logging profits in our Russian energy plays (which we abandoned for hefty gains early last summer)… good, old-fashioned blood-in-the-streets gains on Indonesia's government upheaval… even on IPOs.

Key to this is keeping your eye on the money. The opportunity to create wealth does not evaporate. It migrates. From the NASDAQ's Internet bubble… into real estate… foreign bonds… or emerging markets.

But you have to be selective in your choices—and stay ahead of the lemmings. Most important of all, you have to find a way to hitch your portfolio to some of the most powerful profit engines around.

This month, we're doing just that. Read on and let the Taipan Group's hard-bitten, fast-moving team of editors introduce you to the fastest-growing economy in the world… and tell you how you can get your share of the riches it is producing. U.S. and international companies are clamoring to set up shop in this country to rejuvenate their profit margins by exploiting cheap labor… and you can be among the winners!

Make sure you act fast… and make double sure that you're keeping on top of events. That has never been more easy….

since the Taipan Group began producing a daily update for our subscribers that is yours free for the asking. (To sign up, just follow the link on the Taipan website: www.taipanonline.com).

Who needs a bull market if you have *Taipan* on your side?

Surviving in the Season of the Shark

You can curse the market—or you can open a can of WHOOP ASS soda on it

by Adam Lass

This is the first and last time this year that I will talk to you about the beach. You went, I went, we all got sunburned. Yadda, yadda, yadda. Maybe your beach was on one of the left, right or bottom coasts (the top coast being too cold even in summer to be worth mentioning). Or perhaps it was on some lovely lake or riverside. If so, you are probably one of the lucky ones.

It seems that this summer is going to go down in history as "The Season of the Shark." Coastal communities are complaining of a supposed increase in attacks from that most brutish of evolutionary holdovers. Some, like Nag's Head, NC, have experienced their first fishy fatalities in over fifty years.

I don't wish to speak ill of the departed, but in the days of my youth, if someone vanished while swimming in the evening, it was written off as suicidal foolishness and didn't merit more than an inch on page three. Now it's a major issue that has closed down popular beaches up and down the Atlantic Coast and prompted the commissioning of several expensive studies.

After spending great big bales of taxpayers' money, here's what I predict they'll find: we humans ate all the small fish, so now the big fish are eating us. What do you expect the poor bastards to eat after we overworked the coastal fisheries until they resemble an aquatic version of Death Valley? I'm no raving ecologist, but common sense (not to mention 400 million years of evolution) dictates that efficient eating machines like the shark must follow the protein.

These days, that's people.

Efficient

Evolution demands that all systems reach for efficient states, be they ecological or economic. Sharks of all colors and kinds always seek out the easiest prey. This summer, that meant that some beer-marinated fat guy on a boogey board stood a higher than usual chance of getting his legs turned into hors d'œuvres for the undersea cocktail set.

Now fall is upon us, everyone has gone home, turned on their TVs, and opened their newspapers to the biz section—only to discover that any slow-moving clods who didn't get devoured at the shore are likely to have had their portfolios eaten away by a different sort of predator, a rather hirsute, ursine gentleman with an appetite for foolishness.

For the better part of a decade, the ultra-bullish herd plunged excess cash into already overbought tech stocks—I say the herd, because regular readers of *Taipan* were warned away from these boondoggles—and now the bear is dining on those bulls with the same efficiency as his voracious undersea counterpart.

Hardly working

All summer long, the market has been flatter than a 5-day-old soda left sitting in the sun. And the few times we did see major trading volume, it was accompanied by sickening price plunges after the herd left the great arena muttering in disgust.

The Fed—which has long since given up any pretense that it is not responding to the Street—has fired off incremental rate cut after rate cut, only to see stock prices fall each time as cold reality fails to live up to rumors of virtually free cash.

In fact, the Fed's efforts to shore up the damage seem to be dragging the market further and further into the red. And the best the spinmeisters and Street flacks can offer is that the bad news "can't get any worse"—always a weak reason for any sort of sustained rally.

Working harder—and smarter

Not that there haven't been some sweet spots—mostly hard-working, nimble little small caps that got the wired-up thing right, but never bought into the "profits-don't-matter" mythology. For them, the market breakdown is translating into the pause that refreshes, because the "smart" cash that was busy evaporating

ACTION ALERT

Jones Soda Co. (JSDA:OB)
Address: 234 9th Avenue North,
Seattle, WA 98109
Phone: 206-624-3357 Fax: 604-624-6857
Email: info@jonessoda.com
Web: www.jonessoda.com

itself on the beaches this summer is finally finding its way to these fast-moving market wonders.

Case in point: **Jones Soda Co. (JSTB:OB)**, a small beverage company out of western Canada. Jones's ultra-hip viral marketing, combined with solid profits, makes it a delightfully odd duck in a business crowded with unwieldy behemoths.

Currently headquartered in that capital of cool, Seattle, Washington, Jones Soda Co. manufactures its Jones Soda, Jones Soda WhoopAss and Jones Juice brands and sells them through its distribution network in select markets across North America.

A leader in the premium soda category, Jones's remarkable marketing program has nailed down equally remarkable profits and growth—Q2-01 saw net sales increase 30% to US$7,691,235 over Q2-00's US$5,962,990, while net income increased 48% to US$293,086, or US$0.01 per diluted share over the same period.

Jones's story began in 1987, when founder and president, Peter van Stolk, recognized the potential of emerging "alternative" products in the beverage industry. He began, not as a manufacturer of his own brand, but as a western Canadian distributor of other successful lines, including Just Pik't Juices, Arizona Iced Tea, and Thomas Kemper sodas. By '94, van Stolk was firmly established as a full-line beverage distributor with a keen eye for picking winners.

Killer branding

In '95, it was time to take advantage of that savvy by launching two brands of his own: WAZU Natural Spring water and Jones Soda, launched with six flavors in early '96. In 2000, the company launched its own energy drink with a killer brand-name: WhoopAss. An incredible coup—I can't believe nobody had locked up that brand previously, but I told you these guys were nimble, eh? Early 2001 saw the launch of 6 flavors of Jones Juice with a viral "alternative distribution strategy."

Jones Soda Co. placed coolers emblazoned with its signature flames in hot Gen X and Y venues like skate, surf and snowboarding shops, tattoo and piercing parlors, as well as national retail clothing and music stores.

Jones followed that with an attack on the "straight" marketplace, with product placement in small groups of convenience and food stores. Now the strategy is paying off, and the company is landing larger chain store listings with Starbucks, Safeway, Albertson's and 7-Eleven stores.

Other examples of Jones's unique marketing strategy include the Jones Team Riders, featuring extreme athletes like BMXer Matt Hoffman, surfboarder Kahea Hart, and skateboarder Willy Santos promoting Jones and sporting the Jones logo at extreme sporting events across the country.

Jones RVs, bus-sized promotional vehicles with 10 foot high Jones flames splashed across them, are operating on both coasts and in its home base of Seattle, pounding out the viral message at key youth-oriented sites like skateboard parks and popular urban basketball courts, handing out decals, T-shirts and gallons of free sodas.

Jones Soda has received awards for its unique packaging. The concept: constantly changing labels submitted by its consumers via its hot interactive website, www.myjones.com, where followers of the Jones Soda cult can create custom labels, many of which find their way to the shelves.

Banking the attitude

Jones's marketing may be all hypercaffeinated attitude, but their books are plain-vanilla enough to settle the stomach of any bean counter.

Net sales for the second quarter of fiscal 2001 increased 30% to US$7,691,235, up from US$5,962,990 for the second quarter of fiscal 2000.

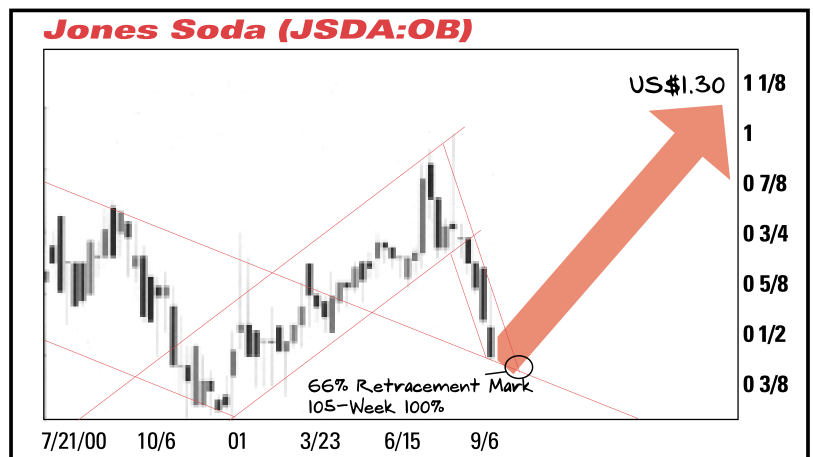
Net income during the quarter increased to US$293,086, or US$0.01 per diluted share, versus net income of US$197,560 or US$0.01 per diluted share for the same period last year.

For the six months ended June 30, 2001, net sales rose 42% to US$13,024,528 versus US$9,160,952 for the same period last year. The company reported net income of US$32,596 or US$0.00 per diluted share during the first six months of fiscal 2001, versus a net loss of US$128,086 or US$0.01 per diluted share for the corresponding period last year.

Gross margin for the second quarter of fiscal 2001 was 37.3%, compared to 41.3% for the second quarter of fiscal 2000. Operating expenses as a percentage of sales improved to 34.0% for the second quarter of 2001, compared to 37.2% in the corresponding period a year ago.

Needless to say, van Stolk & Co. are pleased as Punch with 13 consecutive quarters of strong revenue

JSDA		
Market Capitalization US$11.6M	Price/Earnings (ttm) 5.93	Debt/Equity (mrq) 0.61
Float 13.4M	Price/Book (mrq) 2.44	Total Cash (mrq) US$1.73M
Sales (ttm) US$22.9M	Price/Sales (ttm) 0.48	



growth capped with that 48% gain in net income. They see the gains as a "mandate to grow profitability." Now that's the pause that refreshes.

The play

Despite Coke's cute polar bears, fall and winter are hard times in the entire soft drink industry.

Which makes it the ideal time to buy. And all indications are that Jones's successful viral marketing campaign will yield another strong run-up moving into next year's sweltering summer season.

From a value perspective, you can bet that by the time the kids are swilling this stuff at half pipes and half courts, the price/sales ratio will return to a norm of 1 or 1.1 from its current 0.48, offering investors a clean double.

This argument is supported by the technicals as well: JSDA is currently at the 66% retracement of its recent 52-week high, a key level with high probability of support.

Buy it now, between US$0.50 and US$0.65, with a 9-month target of US$1.30 (and the usual -20% trailing stop).

The time to invest is when blood runs red in the streets:

Why investing in battered economies is the only sane way to profit when markets go mad

by Christian DeHaemer

If Baron Rothschild were around today, what would he do?

My guess is he'd be standing on the sidelines of the current market massacre in the United States, waiting for Greenspan to throw up his hands or throw in the towel.

In the meantime, he'd be plowing every spare nickel into Turkey.

So should you. Since last month, when the *Taipan* team of ruthless profiteers first recommended Turkcell (TKC:NYSE-ADR), this most recent "blood in the streets pick" has been performing well—jumping 20% to US$1.00 before pulling back.

Soaring interest rates and a 50% lira devaluation have wreaked havoc on the Turkish economy. In late August, while the September issue was still being stuffed into the mailboxes of those old-fashioned *Taipan* members who don't make use of our website, a Turkish government treasury bill went to auction at 98% yield.

That's a nice return if you believe the lira has found a bottom or that Turkey won't simply default à la Mother Russia.

If memory serves, it wasn't too long ago that we heard these same gloomy scenarios emanating from the sideline "doominati" about Russia. The word on the Street was that foreigners would never lend to that country again, factories were shuttered, and massive foreign debt was about to trigger a prolonged depression.

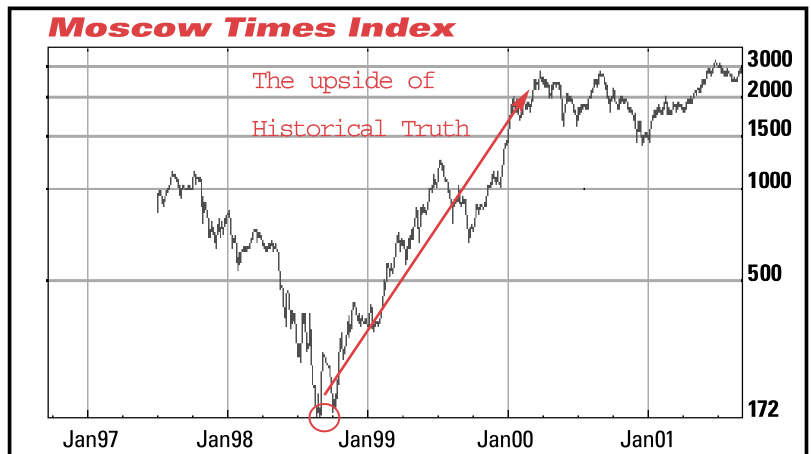
But guess what? When the analysts all start braying in unison, an odd thing tends to happen. People start believing them. Investors like you and me begin to forget that there is one large general truth about emerging markets:

"The experts are always wrong"

Just look at the latest cycle of Historical Truth.

In October of 1998, the Moscow Times Index was at 150. Most people, burned by the Russkis' unceremonious collapse, didn't want to touch another Russian stock with a ten-foot pole.

They were wrong. While the talking heads on CNN were still nattering about the collapse of the Russian economy, Taipan members were buying. And history unfolded like clockwork: by April of 2000, the Moscow

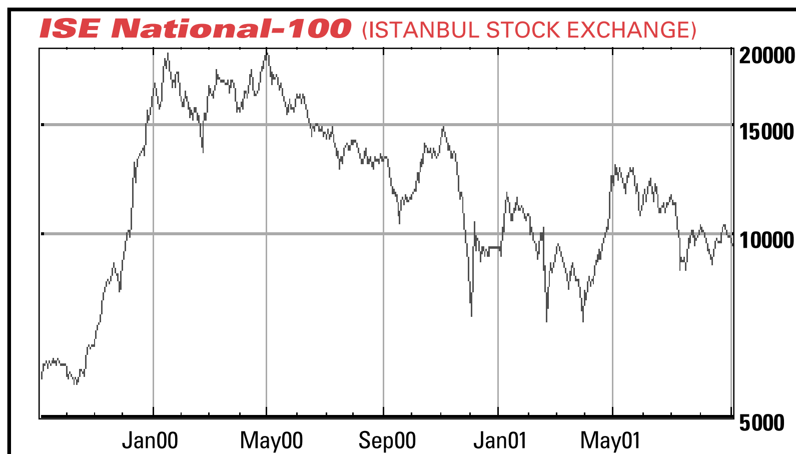


Times Index hit 2,500. That's a 1,500% increase in a year and a half.

We watched the same scenario unfold earlier this year in Indonesia. And Taipan subscribers profited handsomely on our recommended blood-in-the-streets play on TLK:NYSE… while the Jakarta index went from below 300 to 700 a mere six months after its latest economic debacle. (South Korea's index went from 300 to 1,100 in around the same time.)

Now don't get me wrong here: Turkey is a basket case. The majority of companies listed on the Istanbul Stock Exchange are reporting earnings down by up to 70%, and revenues slashed by up to 40%.

But that's why you can buy TKC at a 95% discount over last year.



Fat bottom buyers

The upside includes a US$15.7 billion (17.11 billion euros) International Monetary Fund aid package. It also involves a massive reform program built around severing the ties that banks used to have with the politicos, ending graft and generally tightening the economic reins.

Five months after the reforms started, the crisis management appears to be working. The current account balance is expected to climb from US$10 billion in the hole to US$5 billion in the black by 2002. The lira has stabilized at 1.3 million to the dollar, and inflation has fallen from 16% in May to below 3% last month. And as in most economies that undergo massive devaluation, Turkish exports are rising as the rest of the world buys their now cheap goods.

This is what we like to see. It won't be a straight line up, but the country isn't going to disappear.

Turkcell (TKC:NYSE-ADR) remains a buy under US$0.80.

CIPLA—A drug kingpin

A few months ago, I recommended that you pick up the lowest-cost drug maker on the planet, Cipla Ltd. of India (Script code 87: Bombay Stock Exchange). Our entry price was 850 rupees. Today, as I write to you, it trades at 1,295. That's an even 52% gain—sweet!

The upside remains considerable. The company recently announced that its inexpensive AIDS drug exports are taking off. Cipla can provide the AIDS drug cocktail at less than US$1 a day—a price that gives Big Pharma an aneurysm.

Cipla is now exporting to a dozen countries, including Nigeria, Algeria, Cameroon and Cambodia. The company is also reportedly in talks with other prospective buyers in African and Southeast Asian countries. And after decades of denying it has a problem, China has become surprisingly vocal in publicizing its domestic AIDS problem. The company is expecting sales of US$20 million annually after South Africa approves its drugs later this year.

This one is a keeper! **Hold on to Cipla for the foreseeable future.** Since it is somewhat difficult to track the stock, we're including it each and every day in the Taipan Group's 247profits e-Dispatch. One more reason why you should take advantage of this value-added feature of your Taipan membership!

TURFWAR PROFITEER

Range wars in cyberspace:

Gambling on online casinos for fun and profits

by Jay Salomon

The motto of the great state of Maryland is strong and simple. And, for some reason, in Italian: *"Fatti maschi, parole femine,"* which translates as "manly deeds, womanly words"—an obscure way of saying "walk softly and carry a big stick." Despite attempts by a vocal but unsuc-

cessful subset of modern feminists to toss it in the trash-can of history, it remains proudly in place. Sorry, ladies.

Never one to be political, I am wondering if MGM Grand (MGG:NYSE)—the result of a recent merger between MGM and Mirage—is not acting just a bit too "manly" for its own good these days. I'm referring to the recent decision by America's second largest gaming corporation (just behind industry leader Park Place Entertainment) to apply for a license to operate a cybercasino on the Isle of Man, which recently legalized such operations.

This is a gutsy move. Based on a recent ruling from a Federal district judge in New Orleans (now under appeal), MGG relies on the notion that, while Internet sports betting is illegal in the United States, Internet casinos are not. There is a good chance that MGG's application to operate in the tiny dependency between England and Ireland will be successful. But Park Place, too, is considering an application for a license there.

Rewards of sin

The U.S. gaming industry has been stagnant of late, if not downright dreary. Oddly enough, its most recent small rebound in revenues has been credited to lower fuel prices: Nevada gaming operations outside of Las Vegas are highly dependent upon consumers traveling by automobile. (In fact, some major gaming markets such as Laughlin do not even have an airport.) Any major increase in gas prices instantly translates into fewer gaming clients, and lower revenues for the casinos…

No wonder industry giants like MGG are seeking new avenues for profits. Current estimates place cyber-wagering at over US$3 billion. That amount will double by 2003. But nobody actually knows what the real numbers are in an industry that mainly operates in the shadows to avoid the reach of legislators, prosecutors and many interest groups.

Law to order

A recent action by the New Jersey attorney general against three offshore cyberspace casinos proved how potent American regulators can be. Not only did the state go after the operators, it even moved against a billboard company that advertised the sites.

In the wake of the action, the billboard company removed the messages and one of the casinos has gone out of business. But although the state argued that it was acting to prevent minors from gambling, the reality is that cyber-space casinos are a threat to the brick-and-mortar palaces that provide tons of money to Trenton's coffers.

Recently, Nevada passed a law permitting cyber-gambling on its territory, but the enabling regulations have been slow in coming. And this delay and uncertainty is one of the reasons MGG is not willing to wait. The Isle of Man is a great temptation because it gives the appearance of Anglican sanctity. This is especially important since the Internet gambling industry is viewed as an unregulated rogue by many gamblers who have been taken for a ride by unscrupulous sites in the Caribbean and elsewhere.

Perhaps more than any other potential operator in cyberspace, MGG must seek the greatest appearance of probity, since it is the chain that has offered the most upscale and impeccable atmosphere and accommodations to its patrons on terra firma.

Any hint of scandal in a cyber-operation could destroy the image it has worked so hard to achieve in the "real world."

Domestic disapproval

The American Gaming Association (AGA) expects Congress to propose a bill that would lead to the prohibition of Internet gambling. (AGA is opposed to cybercasinos.)

MGG is in the midst of two mammoth projects at the up-and-coming Atlantic City Marina. The first is Borgata, a US$1billion venture with Boyd Gaming Corp. that is scheduled to open in 2003. With 2,000 rooms, it will be the largest casino in town. But at an expected cost of nearly US$1.5 billion, MGG's own Renaissance Pointe (next to Borgata) is even more expensive. Obviously, this is not a company that can afford to draw the wrath of the regulators down on its head.

The offshore casino card must be played with finesse. Any hint that companies are about to abandon American workers for the low-cost economics of cyberspace will bring the fire-and-brimstone moralists to the fore…

Speculation on gambling

MGG's board just recently approved the repurchase of up to 10 million shares of the company's common stock. Purchases will be made from time to time in the open market or through privately negotiated third party transactions.

The stock has been trading at a somewhat lackluster US$30 and below over the last few months. (Lackluster, however, still means it showed considerable resilience in the recent spate of downward mobility.) The potential catalyst for a short-term boost would be approval from the Isle of Man.

Our wager: buy MGG at between US$25 and US$26. Be prepared to move quickly. This speculation could turn a quick 20% gain before the year is over!

GLOBAL PROFITS

Riding the Red Dragon

Profiting in the fast lane of emerging markets

by Briton Ryle

Depending on who you talk to, China's entry into the World Trade Organization is either a sinister Maoist plot to steal the world's technological secrets…

or a boon to Western multinationals who plan to ride roughshod over unsophisticated and unworldly Chinese companies.

The oddsmakers aren't giving China a snowball's chance in hell of legitimately competing in the global economy.

This reminds me of the Baltimore Ravens' romp through the playoffs last year en route to a Super Bowl Championship. No one, except for loyal Baltimorons, thought they could do it. Many of my friends made a killing off the sports books.

At *Taipan*, we've learned from experience that the masses are usually wrong.

The dragon awakens

Underestimating China could be one of the biggest blunders in history. Which of course means that giving China the benefit of the doubt could be one of the most lucrative decisions an investor can make.

China has a very real chance to take the global economy by storm. And I'll tell you why. China looks like Europe and America did right before the Industrial Revolution… 90% of its population are farmers.

Labor costs are incredibly low. Competition for jobs is high. The workforce is eager to learn marketable skills. Domestic trade is virtually unregulated. Companies are extremely competitive.

China's currency is remarkably stable, due in part to massive foreign reserves created by China's consistent trade surplus. In 2000, China's trade surplus with the U.S. alone was US$84 billion.

Plus, there's virtually no inflation, despite 8% GDP growth for the last ten years running. Estimates are for China's economy to continue to grow at that clip for the next ten years. GDP should top US$1 trillion in 2005, just 4 years from now.

Western arrogance

Western "free" countries usually assume that communism and capitalism are diametrically opposed. Therefore, China must have little understanding of how free markets and the global economy work. Protectionist trade policies are seen as China's response to a scary, complicated world.

In this view, the worst-case scenario for free trade with China will be little more than a panty raid on the global economy, with China retreating back behind its sanctions and tariffs with a horde of stolen technology and trade secrets.

Wrong.

The good student

China's been quietly learning about capitalism, the global economy, and how it can compete for the last 20 years. In stark contrast to its image as a rogue communist country, China's been a model member of the World Bank—as well as its biggest customer since 1993.

The World Bank reports that China makes very accurate budget forecasts for projects, finishes them on time, and repays loans very promptly. A lot of "progressive" Western countries should be so responsible.

Same goes for China's dealings with the IMF. Loans have been repaid promptly. And China has actively sought advice from the IMF concerning the convertibility of its currency. China's track record on the global stage suggests it will be ready when free trade arrives.

Driving home the profits

Plenty of Chinese companies have taken advantage of Western capital markets to fund their growth. There are airlines, energy companies, utilities, and railroad companies.

Taipan members are already making money from Chinese computer maker Legend. Plus, there are two mobile telephone carriers available, **China Mobile (CHL:NYSE)** and **China Unicom (CHU:NYSE)**.

But I don't want to just pick a sector and assume exponential growth will pay dividends (though there are worse strategies).

I want to invest in homegrown companies that will be among the first to capitalize on the rising standard of living that free trade and increased industrialization will bring.

Certainly, mobile communications satisfy this criteria. But free trade will bring competition, and I believe the carrier business is low-margin enough without somebody like **Vodafone (VOD:NYSE)** around.

The red carpet

China's not so backward that consumers will clamor for washing machines and microwaves, either. I believe the domestic automobile industry will be one of the first to benefit from free trade. And **Brilliance Automotive (CBA:NYSE)** is my favorite Chinese automaker.

Brilliance China Automotive Holdings Limited was established to own a 51% interest in Shenyang JinBei Passenger Vehicle Manufacturing Company, Ltd.

Brilliance was the first Chinese company to list on the New York Stock Exchange.

Brilliance is the leading manufacturer of minibuses in China. Unit sales should rise 10% to 65,000 in 2001. But the big engine for growth will be Brilliance's line of passenger cars.

Brilliance China introduced a pilot car to the Chinese market in December 2000. Developed and designed entirely by Brilliance China Automotive, the Zhonghua is the first automobile to be produced exclusively by Chinese engineering efforts.

The market

One in 10 Beijing households now owns a car. That's around 500,000 privately owned cars in Beijing alone. By the end of the decade, it's estimated that as many as 300 million Chinese will own cars. That's some serious growth.

China built more than 2 million automobiles in 2000, taking the 8th spot internationally. According to the China Association of Automobile Manufacturers, this year's sales of automobiles will reach 2.35 million units, which represents roughly 30% growth over last year. Currently, the selling price for an economy car tops out around US$12,082.

The Chinese car market is dominated by Shanghai Volkswagen, makers of the country's most popular sedan model, the Santana. The German-Sino joint venture has cornered around 35% of the Chinese car market.

But Brilliance has enough irons in the fire to give VW a run for its market share.

A brilliant future

In addition to manufacturing its own passenger car line, Brilliance is due to begin manufacturing SUVs and trucks this year in a joint operation with GM. Plus, Brilliance is in talks with BMW about a possible joint venture that would put Brilliance front and center in the luxury car market.

You may be surprised to learn that the luxury car market is alive and well in China. Audi is the market leader, and is on pace to sell 28,000 cars this year. Prices range between US$108,000 and US$168,000. Those prices make you realize that capitalism is alive and well in China. And with those bastions of capitalism, Japan and the U.S. of A, at the bottom of a ten-year recession or on the verge of one… I see no good reason why you shouldn't follow the old *Taipan* motto: When you can't make money at home… make money in those markets that are still growing.

Buy Brilliance Automotive (CBA:NYSE) as a pure play on China's domestic consumer market. It's a thinly traded stock, but you should have no trouble buying below US$17.50.

I like my chips small and powerful… and with extra greenbacks on the side!

How to use the market collapse to position yourself for exponential growth: Buy this stock for under US$13

by Siu-Yee Ng

Now stop licking your lips. I'm not talking about barbecue chips. These chips don't fill your belly, but they will make your life easier.

Look around your office. There are computers, telephones, fax machines, printers, etc. You get my point. These are just a few things you can find in your daily life that use chips.

We live in a world full of gadgets, and the first company to come out with a new and improved one has the upper hand in the market… for a few months, that is. The development of the Internet has increased the demand for faster and higher-performance semiconductor devices.

Give me a minute and I'll tell you how you can take advantage of the current tech slowdown and make money from a beaten-down but profitable company. This month's IPO play actually debuted over a year ago, but now is the time to buy for the ride up.

Shortened lifespan

The life cycle for chip-driven devices has shrunk from four years in the early 1990s to approximately two years today. The increase in device complexity and reduction in product life cycles have led to a more costly and complex manufacturing process.

What about the dramatic decrease in computer prices in the last few years? Competition is driving prices down. So semiconductor manufacturers need to find a faster and more efficient way to get their products on the market ahead of the competition. A process called control metrology can do just that.

Historically, semiconductor manufacturers have decreased their cost per chip by 25% to 30% every year. They have reduced the feature size, increased the wafer size and increased equipment productivity.

Increasing wafer size and yields will continue to be sources of productivity gains by semiconductor manufacturers; but, increasingly, gains will come from

reduced feature size and non-yield manufacturing productivity enhancements, including increased equipment uptime, reduced manufacturing space requirements, reduced use of wafers for testing purposes, and lower tool maintenance costs.

Think about the size of these chips and just imagine the difficulty of testing and implementing the semiconductors on a silicon wafer. The majority of the 100 to 500 steps required to fabricate semiconductors on a silicon wafer involve the deposition and removal of a variety of insulating and conducting thin films.

Ideal measurements

Thin film metrology measures the thickness and material properties of these thin films. This is one of the most important metrology systems utilized at semiconductor fabrication facilities, because it measures a large number of steps. The most widely used technologies to measure the thickness and properties of thin films have historically been reflection spectrometry and ellipsometry.

But these systems have been unable to meet the process control metrology demands of the semiconductor industry. You see, the industry is rapidly moving toward measuring product wafers rather than test wafers.

Think about the money manufacturers could save if they didn't have to process non-productive test wafers. Not to mention the inadequate control in the manufacturing process using test wafers alone. Measurements on product wafers must be performed in small areas, whereas both spectrometers and ellipsometers generally require fairly large measurement areas.

The demand for improved precision and repeatability requires the ability to measure thicknesses that range from extremely thin films to thicker films. Reflection spectrometers are most suitable for measuring thicker films, whereas ellipsometers are most suitable for measuring very thin films. Thus, neither system alone is capable of accurate and reliable measurements over the full range of film thicknesses.

To make things even more complicated, the industry is now using film stacks composed of several layers of different films, as well as many films whose optical properties are functions of the actual deposition conditions. Spectrometers and ellipsometers alone generate insufficient data to simultaneously determine the thicknesses and properties of these film stacks and new types of films with the precision that semiconductor manufacturers require.

Reflection spectrometers and most ellipsometers have very limited capabilities for such simultaneous measurements of both thickness and optical parameters.

No sharks here

Now, what if there was a way to combine film measurement technologies? Look no more, because **Therma-Wave, Inc.'s (TWAV:NASDAQ)** Opti-Probe systems can significantly improve upon existing thin film metrology systems by integrating up to five distinct film measurement technologies, three of which are patented by Therma-Wave.

By combining the measured data from these multiple technologies and correlating it with its proprietary software, Opti-Probe systems provide increased measurement capability, which in turn leads to higher yields, less misprocessing, less rework, faster production ramp-up, and increased productivity on both test and product wafers. These techniques of combining optical measurement technologies and correlating the results have also been patented by Therma-Wave.

Therma-Wave's process control metrology is used to help semiconductor manufacturers monitor process parameters and reduce feature size, increase wafer size, increase equipment productivity and improve device performance.

Its current process control metrology systems are principally used to measure ion implantation and thin film deposition and removal. Therma-Wave currently sells two families of process control metrology systems, called Therma-Probe and Opti-Probe.

Therma-Probe systems use thermal wave technology and are the predominant non-destructive process control metrology systems used to measure the critical ion implantation process on product wafers in the fabrication of semiconductors.

Unlike previous ion implant metrology systems, the Therma-Probe system uses a totally non-contact, non-damaging technology, and thus can be used to monitor product wafers immediately after the ion implantation process. These features have been integrated into an easy-to-use and reliable package with automated wafer handling and statistical data processing.

All in the family

Ion implant metrology is a key step in the fabrication of semiconductor devices where ions—usually boron, phosphorous or arsenic—are implanted into selective areas of the silicon wafer to alter its electrical properties.

Ion implantation is generally performed several times during the early phases of the fabrication cycle. So there's typically a time lag of several weeks between these implant steps and the first electrical measurements that indicate whether the ion implantation process was properly executed.

Failure to identify improper ion implantation can be extremely costly to a semiconductor manufacturer if the fabrication cycle is permitted to continue. Historically, semiconductor manufacturers used a four-point probe to perform test wafer monitoring, a

method that measured electrical resistance and required physical contact between the probe and the silicon wafer surface.

The problem with this method was the high probability of the silicon wafer becoming contaminated from contact with the probe. As compared to test wafer monitoring, product wafer monitoring using Therma-Wave's Therma-Probe systems decreases manufacturing costs by reducing the need for test wafers and pilot runs, and shortening the cycle time between the implanting and monitoring steps.

And here's the icing on the cake. Therma-Probe's tests can detect problems inherent in product wafers that are often missed utilizing test wafer monitoring alone.

Since its introduction, the Therma-Probe system has captured over 50% of the market for ion implant measurement in general and over 95% of the market for non-destructive ion implantation measurement of product wafers.

Opti-Probe systems significantly improve upon existing thin film metrology systems by integrating different measurement technologies and utilizing Therma-Wave's proprietary optical technologies.

Mo' money

Therma-Wave makes money from system sales, sales of replacement and spare parts, and service contracts. During the fiscal year that ended March 31, 2001, Therma-Wave derived approximately 90% of its revenues from system sales, 6% from sales of replacement and spare parts, including associated labor, and 4% from service contracts.

During the year ended March 31, 2000, it derived approximately 85% of its revenues from system sales, 9% from sales of replacement and spare parts, including associated labor, and 6% from service contracts.

During the year ended March 31, 1999, it derived approximately 78% of its revenues from system sales, 12% from sales of replacement and spare parts, including associated labor, and 10% from service contracts.

As you can see, revenue from system sales has increased, whereas service contracts and sales of replacement and spare parts have fallen. It's not surprising to see a decrease in services and parts with the slowdown in tech spending. What I do like seeing is the continuing strength in system sales. We'll get more into the numbers in a minute.

International sales accounted for approximately 59%, 63% and 69% of total revenues for fiscal 2001, 2000 and 1999, respectively. This is something to keep an eye on. Think about the exchange rate: if the value of the dollar rises compared to other currencies, Therma-Wave may experience a decrease in revenues. But this has not been the case so far.

No fancy talk

Let's look at the numbers now and see what Therma-Wave is doing in terms of sales. Net revenues increased 71.3% in fiscal 2001 compared to fiscal 2000.

How can this be, when the chip industry has been hit with a slowdown in tech spending? Think about this for a moment.

Despite the slowdown, Intel recently launched its 2-gigahertz Pentium 4 chip. And its rival AMD introduced its new 1-gigahertz Duron chip. Of course, these brought prices down for less powerful chips. My point is that competition continues to drive companies to come out with a faster and better product. It's survival of the fittest.

Not to mention that conditions have improved in the semiconductor capital equipment industry during fiscal 2001, mostly due to the growth of semiconductor manufacturers and the recovery of economic conditions in the Asia Pacific region.

ACTION ALERT

For more information, contact Therma-Wave, Inc., 1250 Reliance Way, Fremont, CA 94539, tel. 510-668-2200, fax 510-656-3852.

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Of course, with every investment there's risk. We can't ignore the fact that IT spending has slowed. And there's still no sight of a rebound in computer sales. But there is one thing to remember.

Chips are not only used in computers. Think about the electrical instruments used in hospitals and other facilities. Chips are everywhere. So there will always be a need for Therma-Wave's technology. The question is, will Therma-Wave have enough capital to survive this correction?

Now here's something that leads me to believe Therma-Wave is here to stay. This company has been around since 1982. And despite the market correction that began in March 2000, the company still managed to increase gross profits 75% from fiscal 2000 to fiscal 2001.

Orders in the pipeline

At March 31, 2001, 2000 and 1999, Therma-Wave's backlogs were US$57.3 million, US$41.9 million, and US$16.0 million respectively.

Historically, a small number of customers have accounted for a large portion of Therma-Wave's revenues. For example, during fiscal 1999, sales to Intel Corporation and AMD accounted for approximately 23% and 18% of net revenues, respectively; and sales to its top five customers accounted for approximately 53%.

During fiscal 1998, sales to Intel Corporation accounted for approximately 23% of net revenues, and sales to its top five customers in the aggregate accounted for approximately 45%. This does cause some concern, but Therma-Wave continues to add customers.

What I like about Therma-Wave is its growth potential. Two of its competitors are trading at higher valuations compared to **Therma-Wave. KLA-Tencor Corp. (KLAC:NASDAQ)** and **Veeco Instruments, Inc. (VECO:NASDAQ)** have market caps of US$9.048 billion and US$743 million, respectively, compared to Therma-Wave's US$385 million market cap.

Furthermore, KLA-Tencor has a P/E of 21.50 and a P/S of 4.4. Veeco has a P/E of 24.1 and a P/S of 1.7. Compare this to Therma-Wave's P/E of only 12.08 and a P/S of 2. You can see why I get excited about Therma-Wave's growth potential.

Therma-Wave, Inc. debuted on February 4, 2000, at a price of US$20. But with slowing IT spending, the company has been trading steadily between US$10 and US$20 in the last nine months.

Market sentiment has a lot to do with how a stock trades. And today's sentiment is negative, as we all know. <u>In light of this, I think the stock will pull back to trade under US$13.00. So I'm issuing a buy under US$13.00, while maintaining a 20% stop-loss at US$10.40.</u>

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