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INSIDE:

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After the carnage of summer, get ready for the turnaround: 6 profit opportunities for what's left of 2002!

by J. Christoph Amberger

They say September is usually a bad month for investors. This year, who can tell? June, July and August did their darnedest to make September look good by comparison, turning the markets into something resembling the Pennsylvania Turnpike in the process… small eternities of backed-up traffic haunted by unpopulated construction sites, rutted roadbeds, and billboards jeering: "Rome wasn't build in one day, either." And it's not just the American markets. Germany's DAX—which hitched a late ride on the late and lamented U.S. Internet bubble—has been losing value in 5% daily increments over the summer, dropping back to levels not seen since1998. France and Britain haven't done much better. In Asia, Taiwan, South Korea and Hong Kong have been contracting steadily. And the Nikkei 225? Struggling to keep a few hundred points above the 19-year low it posted in August. If the old adage is true and 50% of any given economy is made up of emotion, the world's in a serious funk. Even if there may not be much to be truly depressed about.

Perceptions of reality

Among my pet peeves in the day-to-day convulsions of the markets is the emphasis commentators put on the various monthly consumer confidence and/or sentiment indices and indicators. These are polls of average Joes deemed representative of the population by academics. The chosen ones respond to a given set of questions about how they see their place in the general state of the economy. For the past four months, the monthly levels of these indices have been declining. Consumers, the talking heads interpret away, are more and more distrustful of where the U.S. economy is headed. And since consumers drive two thirds of the economy, investors paying attention to the auguries of the pollsters jump on the bandwagon, selling stocks wholesale. The usefulness of these sentiment-based indicators for predicting actual economic (let alone stock market) movements has been debated—and they've proven to be without practical validity or merit in the past. But just consider the last quarter. While consumer confidence dipped each month, consumer spending rose proportionately. While Jane Sixpack was professing to be in despair about the future of the U.S. economy to the pollsters, her husband Joe was impatiently jingling his key chain,

(over, please...)

TAIPAN

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ready for a trip to the mall. And it wasn't just shaving cream and a pair of socks that Jane and Joe were buying. Automobile sales, existing home sales, new home sales are all at record levels… and growing! Not all of this sales growth can be explained merely by the availability of low-interest, zero-down financing. If you've ever bought a house, you know how much analytic weighing and calculating is involved. Arriving at the decision that making the monthly mortgage payments for your new home won't force your kids to wear Kleenex boxes for sneakers in itself represents a manifestation of optimism. Be it only the optimism that you will remain employed long enough to make next month's mortgage payment…

Debtor's prison

Much of U.S. consumer spending—and thus, economic expansion—is based on the easy availability of consumer credit. Accordingly, personal debt (especially credit-card debt) has been expanding right alongside consumer spending. (Maybe that's what makes people depressed?) This is, of course, not a recent occurrence. I remember some of my esteemed colleagues in the investment advisory industry issuing dire warnings about the record levels of personal debt and bankruptcy back in the mid and late 1980s, predicting the collapse of the U.S. financial system for 1990, 1995, 1999, and 2000. And there are some indications that the American spirit has put down roots abroad, at least in Britain. Indeed, credit-card debt has increased by 16% in the last twelve months, according to the British Bankers' Association (BBA). With 59 million credit cards burning holes in the pockets of Her Majesty's subjects, credit-card debt outstanding totaled £43.7bn at the end of July, with average balances of £1,400. Credit-card borrowing now accounts for over 30% of all outstanding consumer credit and over 60% of all new lending. (This may indeed be the most compelling difference between Japan and the U.S.: Japanese consumers, by culture and demographics, are about as hesitant to go into debt as the Swiss and Germans were three decades ago. Which has limited Japan's ability to work itself out of its decade-long depression by way of internal consumption.)

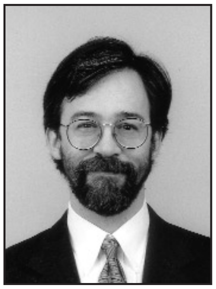
Great expectations

If Americans can't be dissuaded from spending more than they earn on more than they need through market corrections of 30% annually, through rising unemployment, terror attacks and military campaigns, I wonder what could stop them once things start to look up again? Meanwhile, despite short-term setbacks and rumors swirling about the pending change of guard in Beijing, China is banking on Americans living up to their reputation as merciless spenders. Recent GDP growth projections for the next three years peg expected growth at 6% to 7% annually! (To give you the appropriate backdrop: the EU and Japan are expecting between 0.2% and 0.8% for the current year!) Even Toyota Motors, until last month the lone Japanese holdout, has finally decided to follow Honda's example and set up shop in Shanghai. It's an appropriate move: if Japanese domestic consumption shrinks, follow the growth! And one of the few regions around the world that seems ripe for another round of exponential growth is Asia. That's where Chris DeHaemer, our own Taipan World Investor and editor of the popular *Red Zone Profits*, is going to take you in this issue. But not before Adam Lass arms you with an updated outlook on the imminent future of the Dow! The short term may indeed still have some downside opportunities—especially short-term speculations in oil-related stocks and options prior to any military action taking place against Iraq—but I believe that the investments we make in the next six months will be the cornerstone of our personal wealth in the decade ahead!

(By the way: if you're not getting Adam's intermittent updates on his outlook via our free 247profits e-Dispatch, it is high time that you do. This daily update on what's going on in the investment world has really grown into the heart of *Taipan's* subscription service. I urge you to make use of this free perk. The only thing you have to do is sign up for it, either at www.taipanonline.com when you check on our weekly hotlines… or simply go to www.247profits.com. We never rent your email address to anyone!)

The Bear is dead! Long live the… what?

A brief word on supernatural interventions, unnatural markets and preternatural opportunities



by Adam T. Lass

The phrase that is rising up from the hubbub of the chattering classes this month is "intervention." I'm hearing it all over the place: should we abandon the pursuit of al Qaeda terrorist cells and intervene in Iraq? Should the U.S. central bank continue to intervene in our rocky economy? Did the Bush White House already intervene in the stock market?

As usual, most of the questioners don't truly understand the questions, let alone the answers. Be that as it may, their perceptions and desires do affect the gestalt, so let's examine them briefly:

Have no doubt, moving on Iraq will mean the end of any effective pursuit of al Qaeda. Not only will it destroy any sort of international coalition, it would mean allying ourselves with those who are operating against Saddam in Northern Iraq, a mostly disorganized bunch who appear to be allied with Islamic revolutionary forces in Turkey, Iran and… al Qaeda.

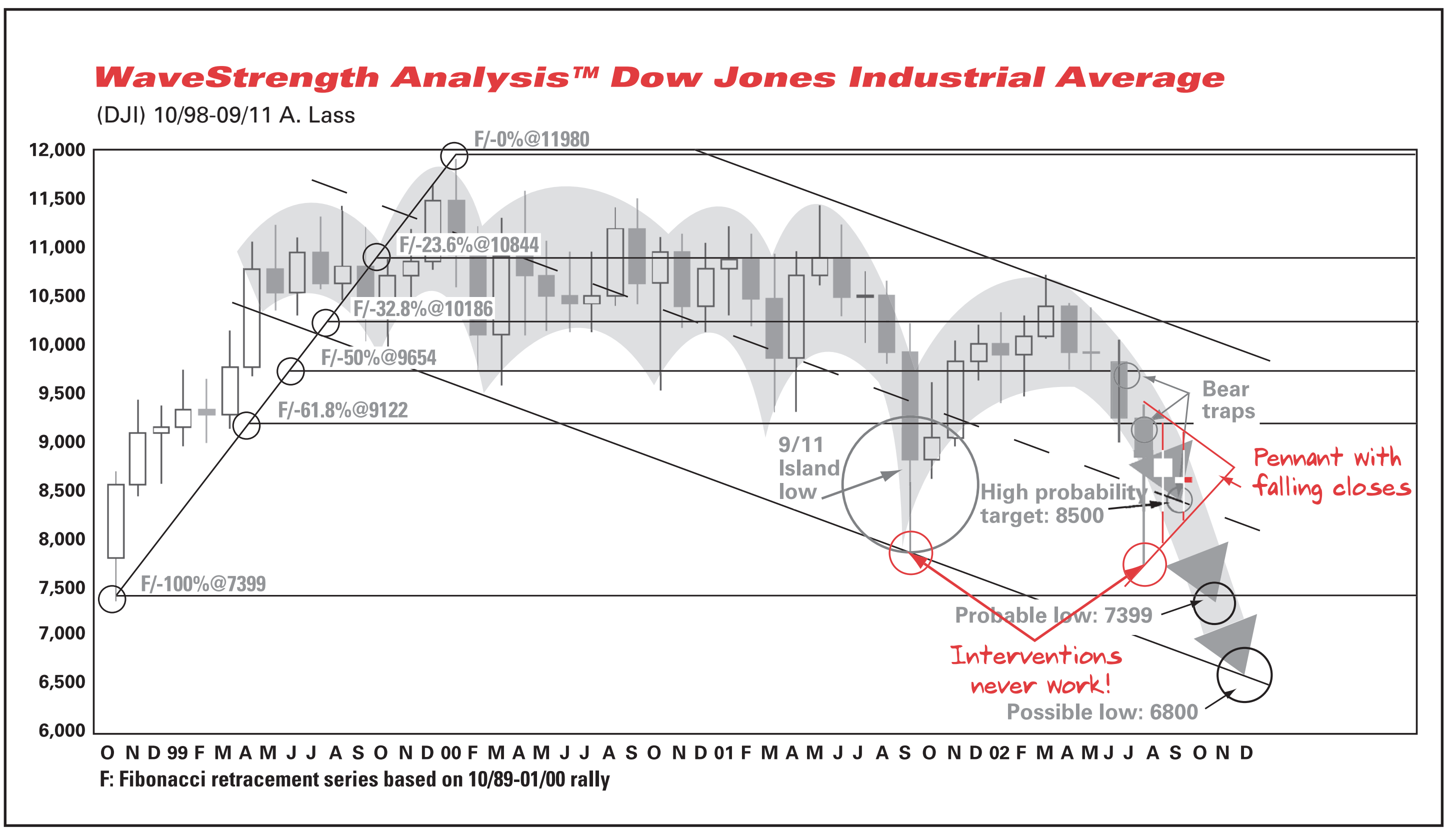
I suppose the alternative of waiting for one of Saddam's equally bloody-minded clansmen or maybe some Iranian cleric to bump him off is just too frustratingly passive for a guy with a decades-old, Texas-style family grudge to settle.

The visible hand

On the home front, less-than-divine intervention is thoroughly permeating the Volksgeist: should the powers that be intervene in the ongoing market crash (in the form of even further Fed rate reductions)? Or have they already (in the form of collusive massive futures buys at key foundering moments)? And is either a good thing?

My recent reading has yielded two views on such acts of *manus hominis.* The first is a tale I've come across twice lately, once in "Theodore Rex," Edmund Wilson's recounting of Teddy Roosevelt's presidency, and again in Ron Chernow's "The House of Morgan." Both books (albeit from two very different points of view) relate how, in 1907, J. P. Morgan (both the man and his bank) pretty much single-handedly saved Wall Street from its own excesses.

Morgan's rewards for his Herculean efforts were pecuniary only: despite the fact that his intervention was at Roosevelt's behest, he was thoroughly excoriated afterwards by both the press and the White House for being the



only party powerful enough to pull the trick off. Indeed, the federal government spent the next few decades doing its best to transfer that power from Wall Street to Washington. The reward for this endeavor: the greatest depression in American history, just a few short years later.

The worst intentions...

And that's by far the more optimistic tale. The third book on my nightstand is "Koba the Dread," Martin Amis's meditation on one of the greatest centralizations of power of the 20th century. As slim as this volume is, it is taking just as long to read as Chernow's Brobdignagian tome, as I must put it down periodically due to alternating bouts of mind-numbing astonishment and out-and-out nausea. I can't bring myself to relate specific incidents, but a brief perusal will convince even the densest reader of the inherently suicidal nature of state-sponsored "interventionism."

But enough polemics. The question of whether interventions do any good can be answered far more simply by a glance at the Dow's chart. Take a gander at the results of the 10/02 intervention that followed the infamous attacks and the crash that supposedly followed (a concept that I believe I have thoroughly disproved over the past six months). If ever there were a good argument for an orchestrated effort to stem the bleeding in a hemorrhaging market, it would seem to have applied at that particular moment.

And yet, as seemingly heroic as this act was, in truth, all it did was prolong the pain and invite investors to dump yet another wad of cash down Wall Street's ravenous maw. Note instead the upward arc and final return as the market seeks the genuine bottom required by the refutation of the Internet bubble. My conclusion on divine intervention: it didn't work in for Roosevelt in 1909, it didn't work for Bush in 2001, and it probably won't work in 2002. (It did, however, work in hideously negative perfection for Stalin.)

Profits beyond nature

Instead, look for the narrowing pennant structure formed from July, August and September's extremes to tighten down to a point just below 8,550 and then a collapse to my probable low target of 7,399. I spoke in the title of a "preternatural opportunity," a chance to cash in "beyond the normal course of nature." I can't think of a better way to describe the potential profit to be had by betting against Washington and Wall Street's attempts to circumvent the natural effects of the market.

PROFIT ALERT

Our downside Dow forecast stands, and so does your current play

Continue to buy the Dow 88 June 2003 Puts (DJX RJ) between US$8.50 and US$11.50

by Bryan Bottarelli

A typical day for me starts out just like any other trader's. I get out of bed and flip on the financial channels to check the NASDAQ, Dow, and S&P futures. I do this before putting on a pot of coffee, before showering, and even before hitting the bathroom. I simply can't get the day started without knowing how the markets will open.

Flipping on the TV on the morning of September 11, I noticed something very eerie. And although I was feeling exactly how everyone else in the country was feeling that morning, it had nothing to do with any stories of heroism, grief, or mourning.

You may not have noticed, but on the morning of September 11, the S&P Futures were trading at exactly 911. It sure was a strange sight. Later that evening, the numbers drawn in the New York Lottery were 9-1-1. Blows your mind, doesn't it?

Moving on to the position at hand

I am writing to you on September 12, 2002. Right now, the Dow is trading at around 8,500. With Adam's downside target still standing at 7,399, that gives you a little over 1,000 more points for the Dow to fall. Therefore, I'm reiterating the advice I gave to you in last month's article: **buy the Dow 88 June 2003 Puts (DJX RJ) anywhere between US$8.50 and US$11.50 per contract.**

As I write, this option trades between US$10.00 and US$10.50. Those of you who got in last month around US$8.50 are seeing the beginnings of a nice 15% gain. As the Dow continues struggling to find its legs, I feel your gains will move even higher.

If nothing else, this put option acts as a great way to protect your long positions in case of a further selloff. As a general rule, financial markets do not react well to uncertainty. With all the talk about Iraq lately, the level of uncertainty and jitters is higher than ever. Even throwing our Dow forecast completely out the window, if something happens with the U.S. and Iraq you'd want to have this position in your portfolio as protection against a violent market selloff.

How you profit

In case you didn't catch my explanation of how this option moves up as the Dow moves down, here's a quick recap. This option gives you the right to sell the Dow for 8,800 up until the third week of June, 2003. The exit point I'm targeting for you will be once the Dow retests the 7,500 level, which could happen in the next three months. At the 7,500 level, I estimate this option will be worth around US$15 per contract—netting you a gain anywhere between 34% and 50% if you enter the position today. Assuming typical volatility and time decay, this option goes up in value US$0.80 to US$1.00 for every 100 points the Dow goes down.

Action Alert: the Dow 88 June 2003 Put (DJX RJ) remains a buy at levels up to US$11.50 per contract.

It's an outcry… the house always wins! Find out how you can profit from it…

by Siu-Yee Ng

Asians are notorious gamblers. Take it from me. I've been going to Atlantic City with my dad as long as I can remember. Once I was old enough to sneak into the casinos, I noticed that over half the gamblers were Asians. And I saw a fair share in Las Vegas, too.

Why else do you think the gambling industry in Macao, located right near Hong Kong and next to China, has been able to employ over half of the population in the special administrative region (SAR)?

It's quite simple. Whether you're gambling at the casinos or on the stock market, the reason is the same… to make money. One way to do that is to hedge your bets to minimize the risk. Options have long been a way to hedge your bets in the market. And in a minute, I'll tell you how you can capitalize on the growing demand for futures trading.

Betting on the future

There are different ways to hedge your bets. In blackjack, if the dealer has an ace on top the player can buy insurance. In baccarat, you can bet on a player to win but still hedge your bets with the dealer. And in the market, you can purchase a futures contract to sell at a future date at a set price.

Futures contracts provide a means of hedging, risk management, asset allocation and speculation. And according to the Futures Industry Association, the total number of futures contracts traded on futures exchanges worldwide grew from 475 million in 1990 to 1.8 billion in 2001!

There are a number of reasons why futures trading has gained global popularity. Investors realize that with increased market volatility, risk management becomes a key element in holding on to their money. And buying a futures contract is a cheaper hedge than buying the financial institution or commodity.

Futures trading 101

Futures trading has traditionally occurred primarily on physical trading floors in arenas called pits through an auction process known as open outcry. Only members owning or leasing a seat on the exchange may trade in the pit, and orders from individual and institutional traders are sent to these members on the trading floor, usually through a broker.

Many exchanges also permit block trading, which involves the private negotiation of large purchases and sales away from the trading floor. These trades are settled and cleared through the exchange's clearing facilities.

Futures exchanges also offer privately negotiated exchange-for-physical (EFP) transactions and exchange basis facility (EBF) transactions. EFP and EBF transactions involve exchanges of futures contracts for cash positions or other qualified instruments.

If you've seen the movie "Trading Places," you get the idea.

Modern technology has made futures trading simpler for investors. Most futures exchanges provide electronic trading platforms, either exclusively or in combination with open outcry trading facilities. This allows subscribing customers to get real-time bid and ask prices and trading volume and enter orders directly into the platform's centralized order book.

Examples of electronic trading platforms include the GLOBEX system, the a/c/e platform, which is provided jointly by CBOT and Eurex, LIFFE Connect and the eSpeed platform, which supports the Cantor

Exchange (CX).

Going public

On June 10, 2002, the largest futures exchange in the United States and the second largest in the world, Chicago Mercantile Exchange Holdings Inc., filed to raise US$150 million on the open market.

CME was launched in 1898 as a not-for-profit corporation known as the Chicago Butter and Egg board. Over a century later, in November 2000, CME became the first U.S. financial exchange to demutualize and become a shareholder-owned corporation.

Now CME has to answer to its shareholders by adopting a for-profit approach to its business. CME posted record trading volume of more than 411.7 million contracts in 2001, an increase of 78.1% over 2000.

But 2002 is shaping up to be an even better year. Trading volume for the first half of 2002 has already totaled a record 259.2 million contracts. The second quarter of 2002 marks the sixth consecutive quarter in which new total trading volume records have been established.

In the first six months of 2002, investors traded a record number of interest rate and stock index contracts. This was in part to protect portfolios against market swings and possible U.S. Federal Reserve Board policy changes.

Knowing the business

CME brings together the buyers and sellers of derivative products on its open outcry trading floors, on the GLOBEX electronic trading platform, and through privately negotiated transactions that it clears. Investors can trade futures contracts and options on futures for interest rates, stock indexes, foreign exchange and commodities.

CME owns its clearing house and is able to guarantee, clear and settle every contract traded through its exchange. During the first quarter of 2002, CME processed an average of nearly 490,000 transactions per day. It currently has the capacity to clear more than one million transactions per day.

As of March 31, 2002, CME had US$27.4 billion in collateral. In the first quarter of 2002, it moved an average of US$1.6 billion of settlement funds through its clearing system each day.

In addition, 38 other exchanges and clearing organizations worldwide have adopted CME's Standard Portfolio Analysis of Risk (SPAN) risk evaluation system, and both the New York Mercantile Exchange (NYMEX) and Euronext N.V. use CLEARING 21, CME's state-of-the-art clearing system.

If I had to list all of CME's accomplishments in the last century, I'll need more than a couple pages in *Taipan*. But I can say this: if it weren't for CME, the futures market wouldn't be where it is today. In 1987, CME pioneered the concept of global electronic trading, and launched the GLOBEX platform in 1992.

Global network

Competition is increasing, but CME remains a leader in the industry. Remember, CME has been around for over a century and has ties with other leading derivative exchanges and clearing organizations in France, Spain, England, Singapore and Japan. CME has been able to extend the market reach of its global derivatives business.

And as part of its continuing effort to introduce new products based on new markets or securities, it recently formed OneChicago LLC, a joint venture with the Chicago Board Options Exchange (CBOE) and the Chicago Board of Trade (CBOT) to trade single stock futures and futures on narrow-based stock indexes.

CME also recently entered into an agreement with NYMEX to offer newly created small-sized versions of key NYMEX energy futures contracts for trading on its GLOBEX electronic trading platform. The products, based on CME's successful E-mini stock index contracts, will be called e-miNY energy futures and will clear at the NYMEX clearing house.

Money talks

Like most exchanges, CME generates revenues primarily from its trade execution services, clearing services and market data and information services.

And with the recent increases in trading volume, revenues have grown as a result of increases in some of its clearing and transaction fees that became effective in the fourth quarter of 2000 and the first quarter of 2001.

Revenues have grown from US$177.6 million in 1997 to US$387.2 million in 2001. During the first three months of 2002, revenues, net of securities lending interest expense, were US$101.1 million, a 9.7% increase over the same period in 2001.

Total revenues increased US$29.7 million or 15.9% in the first half of 2002, compared to the same period in 2001. Net revenues increased US$21.7 million or 11.6%.

At the end of June 30, 2002, CME had cash and cash equivalents totaling US$48.1 million.

Cyberage

Online trading has become a quicker, easier and cheaper way to trade. So it's important for CME to continue developing its online platform. For now, around half of its revenue is still generated from its open outcry facilities. Other countries have abolished open outcry altogether and have gone completely electronic.

In order to maintain a competitive edge, CME will need to complete the development of a new electronic functionality that will accommodate more products and markets.

Chicago Mercantile Exchange will be an IPO to keep an eye on. Other exchanges are in the process of demutualization. And if all goes well, we will see more exchanges trading on the open market. But remember, CME will be the first out the door, and thus the market leader.

CME has yet to announce an IPO date, but I will speculate that the underwriters will try to get this out the door before year's end. The underwriters for this offering are Morgan Stanley & Co. Inc., UBS Warburg LLC, Salomon Smith Barney, J.P. Morgan Securities, Inc. and William Blair & Co.

For more Information on Chicago Mercantile Exchange Holdings, contact 30 S. Wacker Drive, Chicago, IL 60606-7499, tel. 312-930-1000, toll free 800-331-3332, fax 312-466-4410, website www.cme.com.

From blue chip to penny stock

The tragic story of a NASDAQ bellwether (and how it could make you 40% richer in the next six months)

by Briton L. Ryle

Your assessment of the global economy right now depends on whether you're a pessimist or an optimist.

If you're in the "glass is half empty" camp, stocks remain overvalued. The consumer is tapped out. There's no more liquidity to be squeezed out of real estate. Inflation is right around the corner. And the impending war with Iraq will spike oil prices, sending the U.S. economy into another round of recession.

On the other hand, if you're with the "glass is half full" party, the markets have clearly put in a double bottom. The resilience of the American consumer can be relied upon. Inflation will be held in check by productivity gains and competition. Corporate profits are on the upswing. And Bush's threats of war are a bargaining chip to get the United Nations to endorse stricter inspection rules for Iraq.

Me, I stand somewhere in the middle. I don't believe the Bush Administration is savvy enough to use war as a smokescreen as it pursues its true agenda of stricter inspection rules for Hussein's military complex.

But if the American people, Congress and our allies don't support our regime-change plans, I don't think Bush is foolish enough to forge ahead alone.

One thing is clear, however: the potential war with Iraq is the single biggest variable in the global economy today.

Reading the road signs

The markets have been giving off a lot of mixed signals lately. Reading them properly will have a profound effect on how you approach investing over the next six months.

Oil's up. Gold is up. But stocks are up off their lows. And though weak, the Dow and the NASDAQ have been strong enough to keep the bears at bay. So what gives?

Oil prices are seasonal. You can expect to see spikes in price for the front crude futures contracts in spring and fall as companies move to secure their supplies before the summer and winter months. This fall, the spike is greater, due to all the saber rattling over Iraq.

I know I'll catch a lot of flack for this, but I believe gold is properly dubbed the "barbarous relic." Gold bugs are perma-bears. They like hard assets, not stocks (though why gold should have intrinsic value is beyond me).

Do stock investors run to gold when stocks are on the ropes? No. That's why there's billions of dollars sitting in money market accounts. And why gold's not US$400 an ounce right now.

The wheel's spinning... red or black??

I'm not a big fan of casino gambling. But I have been known to sit at the Texas Hold 'Em table for hours. Playing poker is more like investing than a casino game such as roulette. With poker, you can bide your time until you get a good hand. Still, you have to appreciate the finality of playing black or red on the roulette table.

It's rare when investing in stocks is more like roulette than poker. But right now, the wheel is spinning. And the little ball is going to fall on either red or black. If it lands on black, cooler heads have prevailed. Bush will agree to let tighter inspections monitor Hussein's weapons development. And stocks will launch.

As I said before, I don't believe Bush will pursue war without the support of the American people, Congress and our allies. That's right, my chips are on black.

In the present environment, I don't mind taking a chance on the direction of the market. After all, no risk inevitably means no reward. But when it comes to an investment, a conservative approach is warranted. And believe it or not, I think **Lucent Technologies (LU:NYSE)** is a low risk, high reward investment.

It's hard to believe Lucent was once considered a blue chip stock. The most widely held stock in America has dropped from US$70 to a buck-seventy in three years. You need look no further to find out what happened to the "wealth effect."

When IT spending dried up and the telecom shell game was exposed, Lucent suffered greatly. Annual revenues were cut nearly in half. And the company took huge charges for restructuring and inventory write-offs. Not to mention all the bad loans it had to absorb.

The US$1.78 beauty contest

As I write this, Lucent trades for US$1.78. It's basically a penny stock, even though it has US$5.4 billion in cash. Current market cap is US$6.2 billion. Which means investors are valuing Lucent's US$12 billion in annual revenues at just US$800 million.

Granted, Lucent is not profitable. So any valuation of revenues is subjective. What's more, analysts continue to expect revenue shortfalls from Lucent. I've seen 2003 revenue estimates as low as US$11 billion. And more layoffs are likely.

Clearly, Lucent's not out of the woods yet. But when the trees start to thin for the telecom sector, Lucent will be one of the survivors. One of a very few survivors. And that will be worth more than US$1.78.

The million-dollar toe

It's remarkable, to be sure, but Lucent managed to get cash-flow positive during the third quarter ending June 30, 2002. That's no small feat for a company as screwed as Lucent was a year ago.

Lucent's managing its turnaround mainly through cost cutting. Administrative costs have been just about halved since the bubble days. R&D's been cut, too, but only slightly. The workforce was cut in half, underperforming divisions were cut or sold, plants were closed, and so on.

On the surface, it looks bad. Analysts continue to speculate about more layoffs and revenue shortfalls. But guess what? Insiders are starting to test the waters. And they're doing more than just dipping a toe in.

The chairman of the board bought one million shares on the open market in August. CEO Patricia Russo picked up 350,000 shares. A couple of other executives also bought stock at the end of August.

But that's not all. Institutions are also buying. Institutions bought a net 124 million shares in the early summer (more recent information is not yet available).

What's the upside?

There's pretty much two sides to a Lucent trade. You either short it because you think it's going bankrupt, or you buy it to stick in your portfolio for 10 years with the assumption that it will be a US$10 or even a US$20 stock.

Ask my wife and she'll tell you I have a hard time planning for next week, let alone a decade ahead. So there's no way I'm giving you a 10-year price target for Lucent. Not that anyone would remember it if I did.

But could Lucent hit US$2.50 or, God forbid, US$3 in the next six months? Sure it could. And it would still be trading below sales and for less than 2x cash. As for downside, it's a buck seventy-five, fer cryin' out loud. Unless bankruptcy comes into the picture, it's hard to see the stock going significantly lower. **I'm rating Lucent a speculative buy at US$1.75, with a six-month target of US$2.50.**

WORLD INVESTOR

South East Asia—the tree huggers' nightmare

by Christian DeHaemer

The first thing you notice when you get off the plane in Bombay is the air. It's bad. It scorches your eyes and chokes up your lungs. The explanation is no further than the parking lot. Many millions of dirty little motorbikes scuttling around trailing long black clouds of exhaust.

There was a sign on the dashboard of the auto-rickshaw I took from the airport. It said, "This vehicle uses environmentally friendly unleaded gas." This is India's latest clean-air novelty. It makes you wonder if the catalytic converter could be far behind.

Tree huggers sound the alarm

Those who would save us from ourselves are sounding the alarm over a new environmental disaster. It goes by the name of the Asian Brown Cloud (ABC). It is a haze layer surrounding the whole northern Indian Ocean and much of South Asia, India, Pakistan, Southeast Asia, and China.

This haze shows up for four months a year and makes the cloud that overhangs Baltimore in August look like the sky in "Ferris Bueller's Day Off." Scientists first thought the ABC might be confined to major cities. As it turns out, it's an enormous blanket covering the homes of 3 billion people, or about half the world's population.

For the most part, I'm not one to give credence to the hyper-alarmist notions of environmentalists. Most of them simply want control over your personal property.

However, I was a boy in the 1970s and I distantly remember walking along the Hudson River near Albany, New York, and seeing the riverbanks lined with dead fish. Nobody swam in the Hudson. Things have changed. Anglers will tell you the mouth of the Hudson offers great sport fishing. A clean environment is an obvious choice for those that can afford it.

Asian Tiger growth factor

India is industrializing rapidly, and they don't care too much about state-of-the-art, energy-efficient technology. Most of the new industries there are using old-fashioned, highly polluting engines and fuels. The types of factories that used to pollute the Patapsco River here in Baltimore are now spilling filth into the Ganges.

PRODUCTION STATISTICS

	Second Quarter June 30		Six Months June 30	
	2002	2001	2002	2001
Palladium (oz.)	62,168	20,174	116,090	39,112
Payable Palladium (oz.)	56,884	18,551	106,223	35,741
Platinum (oz.)	56,884	18,551	106,223	2,981
Gold (oz.)	4,244	1,611	7,912	3,167
Copper (lbs.)	1,387,822	559,740	2,552,319	942,712
Nickel (lbs.)	737,683	368,225	1,404,052	652,835
Ore Tonnes Milled	1,270,284	382,061	2,4475,434	605,168
Ore Tonnes Mined				
High Grade ore	1,149,966	1,107,235	2,283,741	1,629,431
Regular Grade	1,066,158	648,610	1,907,815	1,107,791
Waste Tonnes Mined	2,839,992	4,565,948	5,679,693	9,804,442
Waste Strip Ratio	1.28:1	2.60:1	1.36:1	3.58:1

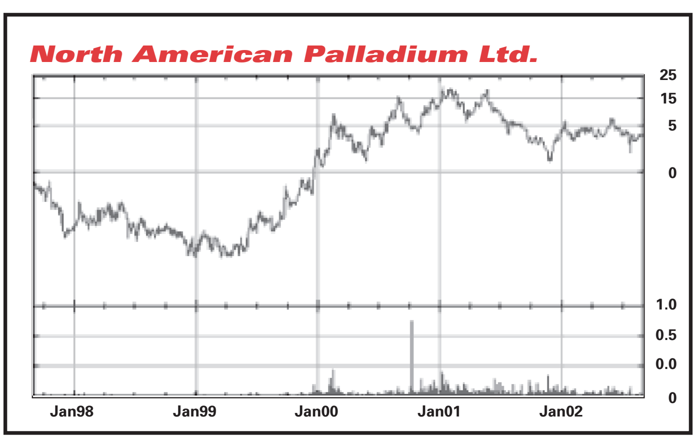
It is clear that India, China and the rest of the Asian tigers will need to enforce the use of catalytic converters.

When the catalytic converter was first made mandatory in the U.S. in 1977, there were 121 smog alert days in California—four months of acrid air. In 1997, there was only one such day… even though car use in California has doubled over that time. Sooner or later, this technology will come to South Asia.

I'm not telling you this to convince you to give money to Ducks Unlimited. No, I'm telling you this because the precious metals of the platinum group, including palladium and rhodium, have a unique combination of properties, making them the natural choice for catalytic converters.

A clean trend for the next decade

Unlike other precious metals such as gold and silver—which just sit there in the ground—there is an industrial use for palladium. And as you can see by the chart, it has been moving up after a long basing pattern. Rhodium has a higher beta and a long basing pattern as well. If you were more speculative, you'd invest in rhodium. As it is, both of these are buys.



An obvious way to play these metals would be to buy the largest producer of palladium in North America. That would be **North American Palladium (PDL.TO).**

As you can see by the chart, PDL has been in a basing pattern for over a year. This is due to the fact that income has held steady. However, if you look beneath the surface, you will realize that <u>revenues have doubled</u>.

In Q2, PLD realized net income of US$7,521,000 or US$0.15 per share (fully diluted) on revenues of US$41,745,000, compared to net income of US$7,707,000 or US$0.15 per share (fully diluted) on revenue from metal sales of US$21,178,000 for the corresponding period a year earlier. [All prices in Canadian dollars.]

PLD increased the production of palladium 207% year over year. Revenues jumped, cost per ounce of ore fell, but income remained the same due to a lower cost of palladium. Cash costs to produce palladium dropped to US$223 per ounce in the second quarter 2002 compared to US$274 per ounce in the second quarter 2001.

For the six months ended June 30, 2002, the company reported net income of US$13,767,000 or US$0.27 per share on revenue of US$86,322,000, compared to net income of US$8,990,000 or US$0.18 per share on revenues of US$41,381,000 for the six months ended June 30, 2001.

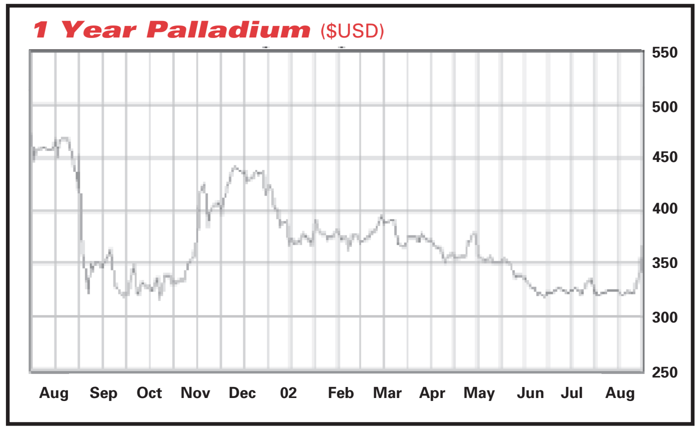
North American Palladium owns Canada's only primary producer of platinum group metals and has one of the largest open pit palladium reserves in the world. The company has doubled revenue, increased output and reduced cost.

The auto industry in the United States, Japan and Europe continues to use palladium for controlling exhaust emissions. The natural trend worldwide has been to reduce air pollution. Any increase in the price of palladium will have a direct and leveraged effect on North American Palladium's bottom line.

PDL has an estimated P/E of 14.2 for 2002 and earns 15 cents a share. Eighty-five percent of sales are from palladium. Annual production will increase to 250,000 ounces annually for the next 17 years (lifetime of mine).

This isn't a short-term play. Don't expect to take profits next week. But if you are looking for a safe, strategic long-term play on an obvious trend—this is your boy.

Buy PDL.TO. It is currently trading at US$8.20 Canadian.



MOMENTUM TRADER

Escaping herd mentality

by Ian L. Cooper

Wall Street fortunes are breaking down quicker than the near-term possibility of Michael Jackson regaining sanity. And like all those who enjoy living on the edge of delusional madness somewhere in this world, the *Taipan* team knows how to walk the line, buck the massive ego-bruising downtrends, break out of the herd mentality… and know that each time we'll be able to jump back in safely before we lose it all.

In a damaging trend that's continuing as you read, investors are fleeing the market faster than Saddam Hussein can run to his rat hole. What makes this scenario better is that while analysts downgrade the potential of the undervalued, those who can think beyond the herd mentality are thriving.

Late last year, for example, analysts and investors alike took a hatchet to the future of many e-commerce plays. Going against the trend, and following the historical progress of these plays in November and December, we jumped in, recommended a strong buy on seven plays, and walked away with an average 32% gain in less than two months.

That's exactly what we're going to do with **Aquila Inc. (ILA:NYSE)**. Following the Enronesque selloff that sent energy stocks to new lows, this company hit our radar screens as a story stock. We'll look to buy into this play at a later date, though. It still has plenty of room to fall.

September: bad month to be an investor

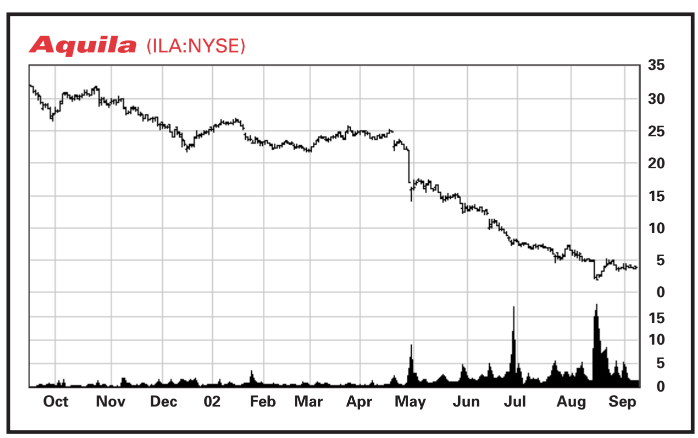
Historically, September has been a bad month to invest. But if you can find the hidden gems now, you're in better shape than you think going into November and December… when mutual funds and institutions wrap up their tax-related selling spree and go out on the warpath for top-performing stocks to improve their portfolios.

You see, while the bears talk a good game and rub all the losses in the face of the bulls, we're bucking the herd mentality, searching for the undiscovered gems. We're already up 20% on CDE, another 30% on VSTY (after banking 50% and 77% gains over the past year), 5% on RYVNX, and a quick 7% on CRXL since August 26—all while the market succumbs to a falling dollar and mounting economic woes.

Insider buying on the rise

Our current state of hysteria is not as bad as it seems. Corporate insiders are slowly coming back to the table… with insider buys outnumbering insider sells by two to one. That's not bad, considering the current state of economic affairs.

Since June 2002, three insiders have bought more than 32,500 shares of this company. And if it can muster a clean bill of health following a devastating selloff, this



stock could pop. We don't see this company going belly up any time soon.

Aquila (ILA:NYSE)

Aquila Inc. operates electricity and natural gas distribution networks, serving more than six million customers in the U.S., Canada, the UK, Australia, and New Zealand. As for its recent numbers and future outlook, try not to cringe and keep in mind that we're not looking to sink any hard-earned gold and silver profits into this puppy until: 1) it gets cheaper, and 2) the underlying fundamentals begin to improve significantly. Until then, look to the *Capitalist Pig* updates for a good time to buy.

In early August, ILA reported a devastating loss, reversing last year's profits. But that was before the geniuses at El Paso and Enron decided they'd throw a party, invite no one, get rich off the industry, and then hurl a bombshell to end all the games.

ILA posted a loss of US$810 million or US$5.69 a share after getting slammed by bad investments in a contracting economy and by costs associated with its exit from the energy trading business.

But if you exclude the one-time losses, the company actually hit expectations with 18 cents per share. Unfortunately for those invested in this company at the time, the market devastated the stock price in Q3. One look at the chart will tell you the story.

Bargain hunting in the energy wasteland

We could see a turnaround soon. Threats of war are looming and it wouldn't surprise me if we see a January offensive in Iraq.

As for its 2002 outlook, the company took its full-year guidance down 26% to US$1 per share, blaming lower power prices. It is a contrarian's dream. Oil has been rising and may spike above US$35, reversing the trend and expanding ILA's margins.

Can ILA get a break?

Tuesday was not what you'd call a great day for ILA. While it may have started the day in the green, it ended in the red, burned by Moody's downgrade and the rapid deterioration of any confidence remaining in the troubled industry. Moody's downgraded the company's credit to junk, triggering close to US$200 million in collateral calls. The company could face another US$200 million in collateral payments if the S&P decides to cut its credit to junk, too.

This follows last month's debacle that saw the beleaguered company lose more than half of its value after shocking investors with disclosures in its financial statements. The company managed to knock 50% off its operating cash flow. I'd say investors were a little more than shocked. The good news: it's clear that the credit downgrades and fear associated with energy stocks have already been priced into the current stock price. In fact, it is oversold.

Trigger-happy

Speaking of joining the herd mentality, Moody's lowered Aquila's credit rating to the non-investment grade Ba2 from Baa2, citing the deterioration of operating cash flows from poor returns outside the regulated utility business in the U.S. Regardless, Aquila is prepared to withstand the effects of the downgrade. Bring it on, Moody's. Bring it on.

Later that same day, Aquila said that the downgrade requires the company to come up with US$192 million over the next 60 days to cover ratings-related triggers, which may rise to US$484 million if the company is cut to junk by the S&P. The company also said it would eventually achieve a stronger credit profile, and remains focused on executing its asset sale program and its exit from the wholesale energy business.

The news follows the company's previous decision to sell more than US$1 billion in assets to improve its credit rating. Up for sale is the company's 78.8% interest in Midlands Electricity, the New Zealand-based United Networks, and ILA's gas pipeline, processing, and storage assets. That's in addition to the price tag on the company's 16.58% stake in the

Lockport Energy facility for US$37.5 million in cash.

ILA has also terminated the Cogentrix acquisition to help expedite its departure from the wholesale energy business, reduced its dividend by 42%, completed equity and debt offerings totaling US$464 million, identified more than US$100 million in cost reductions, signed sales agreements totaling US$483 million and publicly announced bids for the sale of New Zealand and UK investments.

Better yet, Main Street AC has made an offer to purchase for cash more than eight million outstanding shares of Aquila at US$5.45 per share. The firm has promised a 25% premium over where the stock closed last week. The fact that a small company such as Main Street AC would be willing to make an offer for a beaten-down energy company shows us just how badly they've fallen since the Enrons and El Pasos of the world dropped the ball.

Free up some cash

On Wednesday, Standard & Poor's confirmed Aquila's investment grade credit rating and removed the company from credit watch, sending the credit rating down one notch to BBB from BBB-. At least it wasn't junked. To maintain credit quality in the BBB range, the company, according to S&P, must complete asset sales, further reduce business risk, and improve upon utility operations. These were the triggers that sent ILA shares rallying in the mixed market mayhem.

In what could turn out to be the rebound stock of the year, we're going to wait for this puppy to slide a bit further before jumping in with both feet. We'll keep you up-to-date on the entry price and the condition of the stock in your *Capitalist Pig* hotlines. If you're not getting the *Capitalist Pig*, sign up to receive your FREE daily copy at www.247profits.com/cappig_sign-up.html.

This looks like a nice, unheralded bet to play the next crisis in the Middle East.

There's no need to rush into this play with the economy in shambles. Contact: 20 West Ninth Street, Kansas City, MO 64105, tel. 816-421-6600, fax 816-467-3435. Visit: www.aquila.com.

Wealth Institute's Total Immersion Venture Capital Investing Course

NOVEMBER 13, 2002, 8:00 A.M. TO 4:00 P.M., BALTIMORE, MD

by Siu-Yee Ng

You know without my telling you that some individuals are able to build great fortunes no matter what's going on in the economy and the stock market. I'm not talking about making profits of a few thousand dollars by picking the right stock or options trade. I mean real money… US$100,000… US$500,000… a million dollars… or more… on a small investment of just a few thousand dollars.

You also know that these individuals are really no different from you and me. They're no smarter or luckier. They don't have some kind of ESP that lets them know in advance what's going to happen.

What is it, then, that sets these individuals apart?

Well, it's simple, really.

They have a special kind of knowledge.

They know exactly *where, when and how* to invest to get huge returns on moderate investments of US$5,000… US$25,000… or maybe US$50,000.

And the great news is that you can get your hands on this same knowledge… knowledge that will enable you to turn US$10,000 into US$550,000 or US$50,000 into US$1 million.

This is possible by following the lead of many of the world's richest men and women and investing in start-up companies and other private deals before they go public. What you need, though, is the expertise to recognize a good deal when you see it… the knowledge to identify the one or two or three deals that will make you truly wealthy… and the know-how to structure your deal for the maximum benefits and smallest risk possible.

Now, I'll admit, it's not easy getting that expertise and knowledge on your own. But there is a way you can turn yourself into an expert venture investor, easily and quickly, with guidance and direction from some of the world's best "mentors."

And that's why the Wealth Institute is sponsoring a one-day ***Total Immersion Venture Capital Investing Crash Course*** in Baltimore, MD (Taipan's own backyard) on November 13, 2002.

At the Wealth Institute's ***Total Immersion Venture Capital Investing Crash Course***, you'll discover the strategies and techniques used by these successful venture investors to turn thousands of dollars into millions. And at the end of this one-day session, you'll be able to duplicate their success.

Not only will several of your favorite *Taipan* editors be on site, but others as well. I would hate for you to miss out on this once-in-a-lifetime opportunity. I have negotiated with the Wealth Institute to extend the early-bird discount just for our subscribers. But you'll need to register by October 5, 2002.

For more information or to register, please contact Vickie Beard at tel. 410-454-0495, email vbeard@agora-inc.com, or website www.agora-inc.com/reports/400SVCIC/totalimmersion/.