TAIPAN

FORESIGHT COURAGE PROFITS

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How to use the secret language of cash flow for double-your-money returns

J. Christoph Amberger

For the past six months, stocks have been on a roll… notwithstanding the never-ending warnings of bears and permanent contrarians. Of course, they're right. Much like a broken clock is right once every twelve hours, so are the perma-bears who prognisticate a downturn after every 100-point gain in the Dow.

But being right twice a day—or twice a year—is not an investment strategy. Nor will you get rich that way. We prefer to make money at any given point in the cycle. So far, we've done quite well. In fact, there was a certain beauty to the way things came together in the past months: August and early September put *Taipan's* Dynamic Market Theory to the test, and our editors passed with flying colors.

Last month's pick, **Xybernaut (XYBR:NASDAQ)**, has gone through the roof! You may remember that Brian Hicks recommended you buy shares of this tiny company on the leading edge of "wearable computers." A novelty at first, they're now becoming standard equipment for US troops.

Virtually overnight, XYBR is being touted as the next Microsoft. That optimistic view is a tad too 90's, if you ask me. The technology is certainly incredible, but the company will most likely be bought out before its market cap reaches Microsoft levels.

One thing is certain, though: Taipans are making money hand over fist in shares of XYBR. Depending on when you received the issue, you could've bought XYBR between US$0.75 and US$0.90. Brian's 12-month price target was US$2.00 a share. As I write this, Xybernaut is trading for US$2.60—representing gains in excess of 200%… in just 2 weeks!

Our readers seem to like it, too: *Taipan* member Ed G. writes: *"In at US$0.89 with 30,000 shares. What else is there to say?"*
Joe K. raves: *"Thanks for the reco. I bought 2,500 shares on 9/8 at US$.84. I couldn't be more pleased with its performance. Thanks again!"* And member D. R. comments: *"Bought 5,000 shares at $0.90, I love you. Thanks."*

Brian's recommendation on XYBR: HOLD!

Crowded at the top!

But Brian's not alone with the success stories: veteran *Taipan* board member Chris DeHaemer has been generating excellent gains for our members as well—like profits of up to 245% on **NETE** and up to 208% on **LEXR.**

After acting on Siu-Yee Ng's recent recommendation to sell **CYD:NYSE,** member Gordon P. from Winnipeg, Canada, wrote us: *"Thanks for CYD… just locked in 34k profit…"* And member Richard R. shows us how a true Taipan maximizes his gains:

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"Bought at US$5.10 on February 25, sold at US$7.85 on June 20—based on a comment in your e-letter. US$7.85 divided by US$5.10 yields 154% in four months—annualized to 462% (154 x 3). Bought again at US$6.90 on July 10. Sold at US$17.00 on August 25. US$17.00 divided by US$6.90 yields 246% in two months—annualized to 1,478% (246 x 6). Buying CYD back at US$6.90 had the effect of lowering my initial purchase by US$0.95. So my basis became US$4.15. Calculating this ROI: US$17.00 divided by US$4.15 yields 409.6% (6-month investment). Annualizing this turns into 819.3%. Anyway you look at it, this is tremendous!"

That may be an understatement. But guess what? There are more tremendous gains coming your way.

What's next for *Taipan*-style profits?

When I asked *Taipan* editorial board member Brit Ryle for his outlook on the investment climate in the weeks ahead, his reply was instantaneous:

"Making money off stocks should be like shooting fish in a barrel for the next few months."

Over the last couple of years, Brit has developed an evaluative system he calls the Money-Flow Matrix. It tracks and measures cash flow: from the global economy, to mutual funds, right on down to individual companies. That gives Brit a crystal-clear picture of what investors are buying. Or selling.

The Money-Flow Matrix even pinpoints a trade's time frame and shows you whether buying stock, equity options or index options is the best, safest way to trade right now.

You see, at any given moment of the day, billions of dollars are simultaneously moving in and out of stocks. But over time—whether it's days, weeks or months—cash is either entering or leaving. Which means stock prices are either rising or falling.

(One of Brit's favorite cash-flow indicators for the stock market is the amount of Federal Reserve repurchase agreements. He'll explain to you how he uses this indicator—and how you can translate these signals into cold, hard cash in the months ahead—in just a minute.)

What the Money-Flow Matrix does is provide a highly sensitive "cash flow meter." It gives Brit the early read on which way the money is flowing. This consistently generates reliable, profitable trade signals—signals that can double your money in no time.

And the best part is, you can do this over and over again, in virtually any market. Because all markets follow the same basic rule—prices react to money.

This is a level of investing that most amateur investors never achieve. Because it involves serious analysis, independent thinking, and discipline. It's a level where professionals operate, where your investments can double, or even triple, overnight.

It's a level of investing that Brit has perfected. In fact, Brit's track record shows his Money-Flow Matrix is dead-on. His recent string of winners includes **PetroChina** (+63%), **King Pharmaceuticals** (+37%) and **Halliburton** (+21%).

This is a perfect example of *Taipan's* Dynamic Market Theory. Brit focuses almost exclusively on the dynamic action of stocks and the markets—and virtually disregards the standard measures of value.

What's value got to do with it?

A central tenet of the bears' argument against the current rally is that stocks have lost all touch with the realities of valuation. And really, this was as reasonable a point four years ago as it is today. For instance, semiconductor equipment maker Novellus (NVLS:NASDAQ) recently received an upgrade when it was awarded a price target based on 31 times its projected earnings for 2004. No mention that Novellus currently trades at only six times revenues.

One Chinese Internet stock, Sohu.com (SOHU:NASDAQ), has quadrupled since March and trades at 23 times revenues. But the poster stock for the valuation-obsessed bears might be Ask Jeeves (ASKJ:NASDAQ). It's gone from US$3 to US$20 this year, with a P/E somewhere over 600. Ask Jeeves makes eBay's 100% gain to a P/E of 100 look pedestrian.

It's hard not to chuckle a little at these numbers. But I wouldn't short any of them right now, even if I could use Monopoly money. Because another similarity between today and 1999, one that the bears seem to be missing again, is that the stock market is being driven by liquidity. Not valuations, not a burgeoning economic recovery—liquidity. Cash money.

Here's where we'd be putting our money this month:

Party like it's 1999...

...as you get set to reap gains of 40% or more!

Briton L. Ryle

A few years back, when the NASDAQ launched 1,500 points in three months, you used to see headlines like this all the time in the financial press. Because it was a big party. The Taipan Group wore togas to work every day and cheered Qualcomm's relentless march toward US$1,000 a share.

A lot's changed since then. Qualcomm's a US$40 stock after a four-for-one split on the very last day of 1999. It took the NASDAQ nearly two months (starting March 12) just to get to 1,500.

And, with the occasional exception of Chris DeHaemer, we don't wear togas to work anymore.

But that may be about to change.

For the last six months, stocks have rallied relentlessly while every bear, and even a few analysts, warned that the bubble was expanding again. And, just as in 1999, the bears will eventually be proven right. Pay particular attention to the word "eventually."

No doubt a lot of 1999's bears got wiped out shorting Yahoo (YHOO:NASDAQ) before they could cash in their rewards. And I'm sure the same thing is true today. But the similarities don't end there. In fact, this rally feels so much like the end of 1999, I've taken my toga to the cleaners. It should be ready on Tuesday.

Repo Man

As it happens, I've been tracking the single most reliable indicator for the stock market—the Federal Reserve's repurchase agreements. Nearly every day, the Fed either adds to or removes cash from bank reserves to control short-term interest rates. On a daily basis, stocks rally when the dollar amount of the repo activity is above US$5.5 billion. Like clockwork.

In the ten trading days between August 11 and August 22, repurchase activity totaled US$83 billion. And the NASDAQ rallied 100 points.

In the four-day week following Labor Day, from Tuesday to Thursday, there was US$21 billion in repo activity and the NASDAQ ramped up 55 points. The week before that it was US$39 billion for 60 points on the NASDAQ.

Money makes the world go 'round

The Fed is in the process of expanding the money supply. So far this year, M3 money supply

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Third Time's the Charm for King Pharmaceuticals

by Briton L. Ryle

King Pharmaceuticals (KG:NYSE) is making its third move above US$16 since I recommended the stock at US$12 back in March. And it looks like this time it will stick.

King's stock price has been under pressure ever since an SEC investigation into how the company accounted for Medicaid benefits. The result so far has been a restatement of 2002 earnings that dropped earnings per share more than 20%. The investigation is ongoing, so it's nice to see the stock moving higher while there are still some unresolved issues that could potentially pop up.

The stock has seen steady accumulation since the beginning of September. And unlike the other runs at US$16, this one looks for real. After basing at US$14 for the entire month of August, the stock has risen US$2 (15%) this month. Volume has been steady, and there have been no huge up or down days. The 10-day moving average is just crossing over the 30-day and 50-day MA's to the upside—a sign of more gains to come.

Look for the stock to consolidate above US$16 for a couple of days before it starts the climb toward the next resistance level at US$18. By the end of the year, King Pharmaceuticals could well be a US$20 to US$22 stock. And those levels could come even more quickly if the SEC concludes its investigation in the next month or two. ■

has grown by almost exactly US$400 billion. The total M3 growth in 2002 was US$500 billion. Greenspan is on a record spree, and may end up increasing money supply by a cool US$1 trillion before the end of the year.

Most of the increase appears to be savings deposits at commercial banks and thrifts. These account for nearly US$300 million of the total increase in money supply. And, personally, I have doubts as to whether this is tax rebate money. I've got two kids—that US$800 is long gone.

When the money supply grows, the buying power of the US dollar is expected to weaken. This is inflation. It's why gold has been rallying right along with stocks. It's also why the bears should seriously consider taking early hibernation this year.

Because, so far, the only inflation we've seen outside of gasoline prices is in assets—homes, stocks, precious metals, and, until a month ago, bonds. Fierce competition for consumers' dollars keeps all other prices down. In my opinion, asset inflation is exactly what the Fed wants, because it's the only way to boost spending and maybe, hopefully, one day, hiring.

The Fed may or may not get its wish. But one thing seems certain—stocks are headed higher, probably for the rest of the year.

"One thing seems certain—stocks are headed higher, probably for the rest of the year."

In 1999, Y2K was the excuse to open the money pumps. Now, it's deflation. Whatever. The reason is unimportant. What is important, now that we're entering October, is what happened to the NASDAQ between October and the end of December in 1999. Because there's the very real possibility that it's going to happen again.

Fish in a barrel

Now, look here. I'm a technical analyst and stock-picker, and I'm here to tell you that I think stocks (and especially NASDAQ stocks) are about make another big move to the upside.

And I'm even going to tell you about a stock or two that I really like. But first, I want to be very clear about this—*making money off stocks should be like shooting fish in a barrel for the next few months.* At least as long as you're buying tech stocks.

Despite the six-month rally that's taken the NASDAQ up 47%, pricing action and money flows are getting stronger, not weaker. I believe the NASDAQ could tack on another 500 points by the end of the year. Or more. It sounds crazy, I know. But coming from a man wearing a toga and a beer hat, nothing should surprise you.

Think small, think tech

The place to be over the next three months is in small-cap tech stocks. We're into the speculative phase of the rally, when investors and traders start going after small-cap growth stocks that have tremendous upside potential.

JDS Uniphase (JDSU:NASDAQ) at a forward P/E of 360? Love it. Tellabs (TLAB:NASDAQ) at just three times sales? Fantastic. Genesis Microchip (GNSS:NASDAQ) looks like a bargain at 24 times next year's earnings.

But perhaps my favorite small tech stock right now is **Terayon (TERN:NASDAQ).** Terayon makes cable modems for high-speed Internet. I've got Comcast cable and my modem is from Terayon. The company recently shipped its millionth little box.

Terayon is the smallest public company making cable modems. Revenue and earnings have been revised upward consistently over the last three months. The company is still losing money, but this is a growth story. And it's also a takeover story, as Terayon would make a nice addition to a company like Cisco (CSCO:NASDAQ).

Terayon is a momentum play—the stock has gone from US$3 in July to a high of US$8 in September. I think the stock could be at US$12 or even US$15 by the end of the year. And from current levels just below US$6, Terayon could easily double your money.

Terayon is a speculative buy at or below US$7 with a year-end price target of US$12. You can contact the company at: Terayon Communication Systems, 4988 Great America Parkway, Santa Clara, CA 95054, tel. 408-235-5500. ■

The shape of rallies to come?

Two plays to take advantage of what's beginning to look like a sustainable bull market

by Adam Lass, Bryan Bottarelli and Ann Sosnowski

Despite the cavils and quibbles from both the economic left and right, perhaps even in the face of common sense, empirical evidence continues to crowd onto the bullish side of the scales.

Skyrocketing debt and bankruptcies: so what? Once their debt is written off, these folks will be free to get back in the queue at Wal-Mart, armed with brand-new credit cards and completely prepared to spend America back from the brink.

Permanent unemployment for 6% of American workers? Heck, any country in Europe would kill to get a number that low. And besides, weren't American businesses complaining just a few quarters ago that unemployment below 4% was inflationary?

Not about bean counting

Besides, in the long run, none of that matters. The market is perfectly capable of ignoring perfectly good advice. Rational thinkers (myself occasionally among them) have a very hard time wrapping their minds around the fact that the market is not actually run by bean counters. It is, rather, a lusty beast. That's why its classic icons are not Einstein and Adam Smith, but a rampant, rutting bull and a gory-toothed, growling bear.

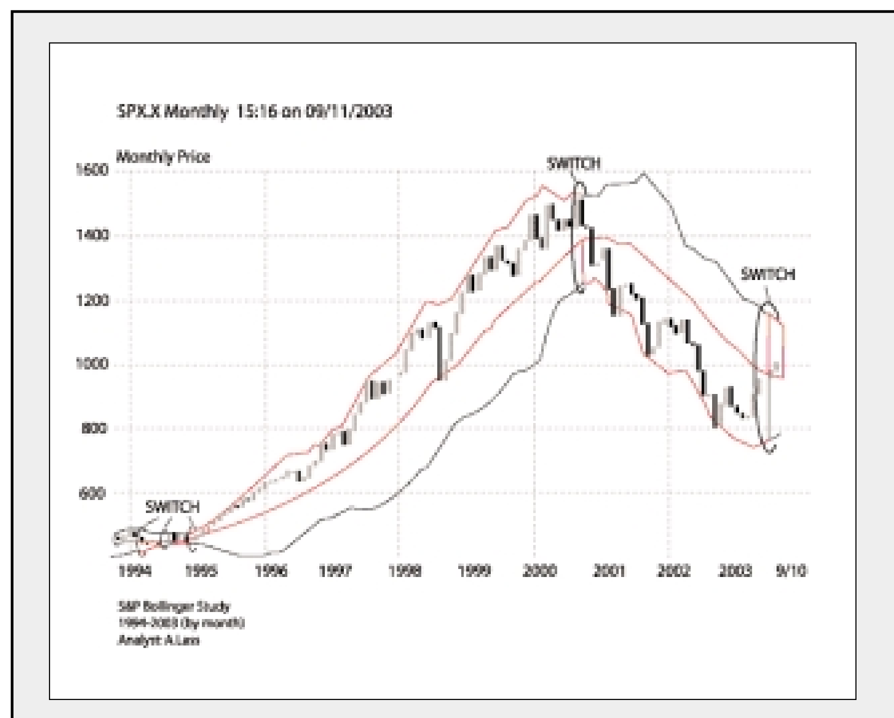
The latest tangible indication that we may finally have left the three-year bear market behind can be found in an examination of the last decade's S&P 500 chart overlaid with a Bollinger band study. In this case, we are using "classic Bollinger parameters": A 20-period moving average to generate the centerline and two standard deviations to delineate the outer bands. This formula has been applied to a chart of the S&P 500 stock index marked off in month-long increments using Japanese candlesticks.*

Frequent reversals

The key question is whether the index is occupying the upper or the lower half of the area between the two outer bands. Note that during the less robust advances of 1994, the index switched its stance three times. This neatly reflects the indecisive nature of the market at that time: gently rallying overall, but prone to multi-quarter reversals that could rob investors of years of gains if they chose the wrong entry and exit times.

But once the great boom commences at the beginning of 1995, the index remains solidly in the

*For more information on this fascinating application of graphical statistical analysis, I recommend going to the source: *Bollinger on Bollinger Bands*, John Bollinger, McGraw Hill 2002.



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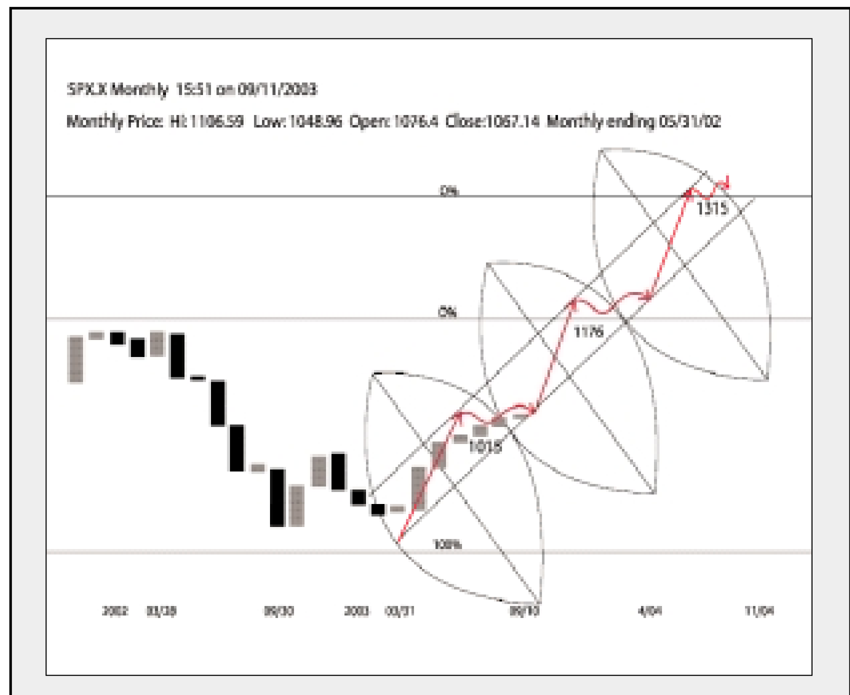
zone between the 20-period average and the top band (with one small exception: 1998's Asian currency collapse, when the index dipped briefly below the centerline and then skyrocketed back to the trend's leading edge).

Then the index switches again in October of 2001 and remains firmly lodged in the bottom zone until June of this year. That's as clear a definition of a bear as one could hope to find. Now, many investors have wondered why I put no stock in the rally of this past March, April and May. This chart offers a fairly clear explanation: until June of this year, the bear exhibited many false rallies, traps to lure out whatever credulous money there was left under America's collective mattress.



The move to the top

But now we are finally seeing something different. Note that as of June, we have finally moved back into the upper zone. Now the index is prepared to make a move that traders can sink their teeth—and wallets—into, with hope of long-term gain.

That's not to say that this new bull is a lock. While the probability may be mounting, there is still a substantial possibility of failure. Much of this run-up is based on largesse from a federal checkbook that may be deep but is by no means bottomless. More importantly, it is also based on our country's faith in its leadership, another well that is not bottomless. Should the president or any of his surrogates appear to stumble either at home or abroad, you can expect the still-jittery bull market to stumble as well.

And even if we are on solid footing for another long-term upside move, that move will not be without risk. But the ebb and flow of that risk is predictable with the aid of certain tools. To get a handle on the shape of things to come, one must begin with a graphical study of what we already know.

Holiday joy

Christmastime is supposed to be a profitable season for all businesses, a time when customers who have hidden in cubicles buried in paperwork all year come out to smell the poinsettias and spend some time and cash in the stores.

But, in recent years, the S&P 500 has shown a decline in profits for the month of December: 2002 saw a 62-point drop; 2001, only a ten-point increase; 2000, a slow-going five-point increase.

These figures paint a bleak picture for our upcoming Christmas season. What about a guarantee that the upcoming Christmas season will be in rare form: profitable, enjoyable, and optimistic?

Mirror-like correspondence

Examination of the S&P 500 since 1995 shows it acting in a predictable manner, always testing the same Fibonacci lines on its descent that it tested on its ascent. The S&P 500 "mountain" shows almost identical curvaceous waves of candlesticks between the -38.2 and the -50% lines.

During the atrocious up-move between 1999 and 2001, the S&P 500 "bubble" boiled its way to a lifetime spike at 1,553. The downturn from that spike that ran to February of this year retraced and retested the Fibonacci lines previously established. At -61.8, this year's action has created support for a newcomer mountain of bullish importance. Recent evidence of a breakout and a high, tight flag formation seem to guarantee a bullish upturn.

Where will this new uptrend take us? Its copycat nature offers a convenient clue. Taking the Fibonacci 0% lines corresponding to the three waves of the downtrend between 2001 and the present, the new S&P 500 "mountain" upstroke looks set to test the same parameters.

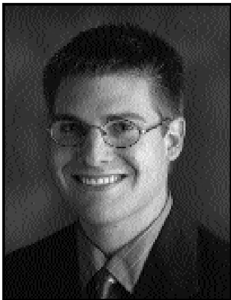
According to the monthly S&P 500 chart, September, usually a less than profitable month, is

laying low—roughly around 1,015—and should be the battleground for the final testing of the last down-wave's 0% Fibonacci mark.

From here, the S&P 500 will jump into another time ellipse of approximately seven months, culminating in a new high around December at 1,176 and a testing of the next pre-established Fibonacci line during the after-Christmas season. After that, we should see another rise during the last months of the 2004 presidential campaign season, resulting in another new high at 1,315 and a testing of the next Fibonacci line around election time in November.

While there are certainly economic and political reasons to be cautious, there are no major graphical indications that the previous S&P 500 bearish trend will recommence. Instead, most signs point up, promising an exciting run with the bulls and a profitable Christmas season and New Year.

Make 29.56% playing the S&P Spider Trust


Bryan Bottarelli

In the pages of last month's *Taipan*, we introduced the **S&P SPDR Trust (SPY:AMEX)**, the investment vehicle commonly referred to as *Spiders*. This month, we're presenting a bigger picture—how owning the SPY could offer you a 29.55% gain by January 2004.

To review, SPRD stands for Standard & Poor's Depositary Receipts. It's an investment trust established to hold a portfolio of securities proportionally comprised of the Standard & Poor's 500 Composite Stock Price Index. "Pure" chartists (like Adam) tend to prefer the SPRD because its underlying assets are a stronger proxy for the broader market than say, the QQQ or the NDX.

As Adam says, the charts above indicate that we could be in store for a sustainable rally on the S&P. That's why we're reiterating our buy recommendation on the SPY.

How do you play it? Simply go long SPY

In recent trading activity, the SPDR's 52-week low is 77.07 and the 52-week high is 103.88. Last month you were able to pick up shares of the SPY around US$100. At this writing, it's trading for US$102.14, giving us a modest 2% gain. But if the index sticks to its recent trend, those gains will go much higher. So let's continue to profit off this up-move forecast.

As a play on current upside momentum, buy the SPRD Trust (SPY:AMEX) on dips under US$102.50 per share. A continued rally could push it above its 52-week high at US$103.88, and possibly send it as high as US$131.50 by January 2004.

As a SPY shareholder, you'll also receive a quarterly cash dividend based on the accumulated dividends paid by the stocks held in the SPDR Trust, minus nominal expenses. This dividend is currently around 1.529%.

For you speculators out there who would like a more powerful index options play, I'd recommend buying December out-of-the-money calls on the SPX.

Specifically, we like the SPX December 1,100 Calls (SPT LT), which trade between US$7.70 and US$8.70 per contract. For every 100 points the SPX goes up, this call option could gain between 350% and 450%. If you're willing to risk US$770 to make an explosive upside gain, the SPX December 1,100 Call is for you!

For updates on this play, stay tuned to the next few issues of *Taipan* and your regular 247profits e-Dispatch. ■

Lights out! Your chance to profit from "the other energy crisis"

Martin Denholm

Cast your mind back to late 2000 and early 2001. California is routinely plunged into darkness as the state endures the most crippling electricity shortage in its history. Power outages and blackouts become a depressing part of everyday life.

Summer 2002: While I'm soaking up the rain in my English homeland, much of America is crying out for moisture as it endures a water crisis of epic proportions. Stifling temperatures parch many parts

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of the country, including the entire eastern seaboard.

January 2003: A two-month oil strike in Venezuela—the world's fifth largest exporter—leads to a supply crunch. This problem doesn't originate in the US, but it still hurts since the country imports 15% of its oil from Venezuela—and the strike occurs in the middle of a brutally cold American winter. As demand rises sharply and oil supplies become increasingly tight, US reserves sag to a 30-year low.

Finally, today: In the aftermath of war, Iraqi oil production is choked by the severe damage done to oil fields and pipelines. Naturally, the supply shortage is affecting the global markets and prices remain high.

And, as if that weren't enough, the US now has the next energy crisis looming large on the horizon…

Wobbling precariously along the natural gas "supply tightrope"

What if I told you America could be set to fall off the natural gas "tightrope," with supplies unable to meet demand? That was the gloomy prognosis for the industry from Carl English—spokesman for the American Gas Association—in his testimony to the US House of Representatives Committee on Energy and Commerce back on June 10. The question is… how have we gotten ourselves into this jam?

"The gap between supply and demand is going to widen even more."

Well, in the words of Federal Reserve chairman Alan Greenspan (who testified at the same meeting), "today's tight natural gas markets have been a long time coming." Because last year's savage winter vigorously sucked up energy for heating, America's supplies of natural gas are now so depleted that reserves are running precariously low. In fact, the industry staggered out of spring with reserves at an all-time low—40% below normal levels. America was staring at its worst energy crunch since the late 1970's.

But thanks to a huge industry effort over the last two months, helped enormously by a cooler-than-usual summer in the eastern US, supplies have been partially restored. Total inventories now sit at around 2.1 trillion cubic feet. But this is still 460 billion cubic feet (18%) less than this time last year, and well below the estimated 3 billion cubic feet needed to cope with winter demand.

Unfortunately, there's little chance of a substantial increase in supplies for the next 12 to 18 months. The Bush administration forecasts a further 2% fall in natural gas production this year alone. To quote Greenspan again, "Futures prices suggest we are not apt to return to earlier periods of relative abundance and low prices anytime soon." Aye, there's the rub: *prices*. That means millions of Americans face the grim prospect of rapidly soaring rates this coming winter.

As supplies shrink further, prices will inevitably rise. In fact, they are already soaring. From 1998 to 2002, the price of natural gas averaged US$3 per thousand cubic feet. This year, the price has shot up to US$6 in response to the shortage and increased drilling expenses. According to Consumers Energy, natural gas cost 38 cents per hundred cubic feet last winter. Recently, that figure soared to 52 cents—a 36% spike. The natural gas futures market is already pricing in another "winter of discontent" for Americans, with prices set to soar by a further 20% this winter. They could go as high as US$7.50 by winter 2005. Bad news… considering that natural gas heats around half of US homes.

Gas rising… but still a lot of market to fill

Currently the third-largest energy resource in the US, natural gas accounts for almost 25% of total energy consumption, generating 20% of America's electricity and serving over 60 million businesses and homes throughout the US. But with increasing volatility, dwindling reserves and soaring prices in the oil market, the profile of natural gas within the energy sector is rising dramatically. Demand is expected to surge by 50% within the next 12 to 15 years. With the gradual rise in population and the need for even greater amounts of energy, demand is estimated to reach 35 trillion cubic feet by 2025.

That means two things: First, the natural gas industry has a lot of room to grow, and it holds a competitive advantage over some of its energy resource rivals. Second, the gap between supply and demand is going to widen even more.

Winter may be cold, but natural gas will be hot

Picture the scene in a few months' time, when America finds itself in the throes of another brutal

winter. Bear in mind that Greenspan believes the weather, not energy policy, will be main driver of prices in the next year. If you're bearish about the future growth prospects for the natural gas industry, you would probably argue that the unusually cool summer will reduce demand and avert a supply crunch.

But bear in mind that America is actually in the second year of a three-year El Niño weather cycle, where summers are cooler than usual and winters a lot harsher. And after last winter's mess, supplies are already stretched. If this winter proves to be as harsh as the last one, we could be in for a real energy squeeze.

Other folks point to the possibility that the US economy might continue to perform sluggishly, another factor that would lessen natural gas demand. But current data suggest the contrary—that America is already in recovery mode and could be primed for a sustained comeback. This will drive demand higher.

It's OK for the bears to be skeptical. That just means they won't be invested in the market. But you can take their place… and their profits. I believe now is a good time to invest in the natural gas market.

Drilling deep for profits

So what companies will benefit from the boom? As in any large market, there are several set to take advantage. But I'm plumping for what I think is one of the most undervalued companies out there—**Southwestern Energy (SWN:NYSE).**

Why? Because as the industry grows, small-cap exploration and production companies like this (SWN's market cap is US$613 million) are poised to take the biggest strides as they fill the market gap.

To see the effect that higher natural gas prices have on the industry, you need look no further than Southwestern's impressive second-quarter results. Cash flow was US$28.5 million—a 63% rise from the US$17.5 million generated in the second quarter of 2002. Operating income from the company's exploration and production division soared by 113% from the second quarter of 2002, to a total of US$21.5 million. Net income took a leap to US$9.5 million—a 428% jump from the US$1.8 million recorded in Q2 2002. That equates to 26 cents per share for the period, almost four times more than a year earlier.

In the first six months of 2003, Southwestern increased overall revenues by 20% and net income climbed from US$8.5 million to US$24 million as the company reported strong production results from two key drilling sites. Its net profit margin is a healthy 11%, while operating profits sit at 23%. It's notable that Southwestern has virtually no debt on its books (the debt-to-equity ratio is a measly 0.83). This shows that the company has a savvy management team in place—one that has managed to record a 13% return on equity over the last 12 months.

Southwestern has a P/E ratio of 18, which exactly mirrors its earnings growth rate of 18% for this fiscal year. This is three times better than the average rate of its natural gas rivals. And its forward P/E for the next year is expected to be around 10. Looking further ahead, the news gets even brighter.

Southwestern's five-year earnings growth rate is projected to be 24.5%—thrashing the industry average four times over.

"Southwestern's sales are rising at an 18% clip versus the paltry industry average of just 1%."

In fact, if you want to gauge Southwestern's true value, its PEG ratio (price to earnings growth) of 0.30 actually points to the company being considerably undervalued.

You've seen the figures. Now take a look at SWN's impressive earnings-per-share growth results. For the first two quarters of 2003, the company posted EPS of 51 cents and 26 cents, respectively. That's a total of 77 cents for the year—already 21 cents more than for the whole of 2002. If you compare the year-to-date EPS growth rate from this year to the same period in 2002, it represents a 183% spike.
And if sales growth is anything to go by, note that Southwestern's sales are rising at an 18% clip versus the paltry industry average of just 1%.

I believe the best is yet to come for Southwestern Energy. It has plenty of room to grow, and I'm looking for it to feed off the strong natural gas sector and exploit a potential supply crunch this winter.

The current share price is $17.25. Southwestern Energy (SWN:NYSE) is a buy under US$17.30. As always, stay tuned to Taipan's websites at www.247profits.com and www.taipanonline.com and your daily 247profits e-Dispatch for the latest updates and alerts.

over, please…

A stimulating discovery: Roll the dice on this US$4.00 company and come out a winner

William Colburn

Before you read this, I want you to make sure you are free of distractions. Tuck the kids into bed. Put the checkbook away for the evening. Prop your feet up. Get comfortable. Because I'm going to take you to one of the most desirable locations you'll ever visit.

Ready?

There you are. Sitting at one of the many blackjack tables under the roof of the fabulous Tropicana Hotel and Casino in Las Vegas. That special buzz is humming all around the casino floor. Men are concentrating on their hands, while their significant others look on nervously.

An intoxicatingly beautiful cocktail waitress comes up and offers you a bourbon on the rocks. You take the libation and start to wet your palate while the dealer does his thing.

You look at your up card. A ten. Flip over your other card and what do you see? An ace. You've just been dealt a natural and, with your winnings, you will finally be able to pay off those medical bills and lay the concrete for that pool you've always wanted.

You down the rest of your drink and smartly leave the table to cash in your chips. You take two steps and… bam!… you feel a horrible pressure in your chest. And then you're on the floor.

You've just had a heart attack.

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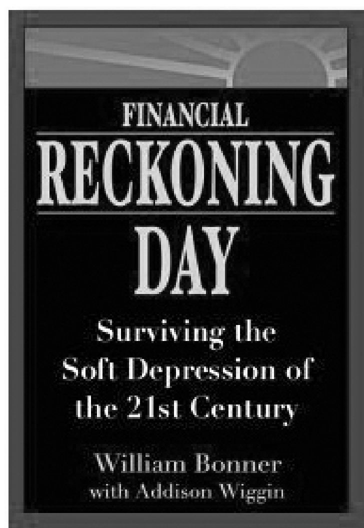

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I bet you probably already know that 450,000 Americans die each year from heart disease. You'd think with advances in modern medicine that the mortality rate would be lower, right?

Wrong. The problem with a heart attack is that it halts blood flow and deprives the body of oxygen. Once that happens, you don't have very much time to get help. In fact, for each minute that passes without oxygen, your chances of survival decrease by 10%. If you're wondering about CPR, the problem with that is it only gets a small amount of blood flowing, not enough to bring someone back from full cardiac arrest.

The only thing that will restore the flow of vital oxygen to the body is a defibrillation shock to the heart. But there's one problem.

In order to receive the lifesaving jolt, you'll still need to wait for an ambulance to arrive. You may even have to wait until you get to the hospital to get juiced. That is, until now.

Catchy name, isn't it?

Cardiac Science (DFIB:NASDAQ) is a company you'll want to get familiar with in the near future. Not only do they save lives, but they're financially attractive to boot. I'll get to that point in a minute, but first, let me tell you what DFIB does.

DFIB is a developer, manufacturer and marketer of public access defibrillators, or automated external defibrillators (AED's), and of therapeutic patient monitor-defibrillators. These are devices that instantly and automatically treat cardiac patients with life-threatening heart rhythms and those who suffer sudden cardiac arrest.

The company's proprietary software technology, RHYTHMx, and biphasic energy delivery system, STAR Biphasic, form the basis of its line of automated external defibrillator products, Powerheart AED, and of its therapeutic monitor-defibrillator, the Powerheart Cardiac Rhythm Module. In addition, the company sells disposable products, including its proprietary disposable defibrillator electrodes, and is active in licensing its core technology to third parties for integration into additional products.

Electrifying expertise

How is the Powerheart any different from the rest of the defibrillators out there? It's all about the STAR Biphasic and RHYTHMx technologies. We'll start with STAR Biphasic.

This technology

- determines the patient's impedance and delivers a patient-customized shock
- can complete a successful defib in 55 seconds
- is 100% effective on the first shock, delivering an average jolt of 200 joules

The genius of DFIB's devices is that all other defib machines are restricted in their energy level distribution. Most are stuck on one energy and shock level. But Powerheart can switch its energy and shock levels to accommodate the individual patient.

The RHYTHMx technology works in much the same way, except it gets a bit more technical. RHYTHMx can distinguish between shockable and non-shockable heart rhythms. Yes. It's that advanced. Even better, if the pads are applied and the heart changes to a healthier rhythm

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over, please…

before the shock, the defib unit automatically disarms itself.

Now, DFIB may be fairly unknown, but social awareness of the need for easy-to-use defibrillators has been around for quite some time. Since 2000, AED's have been introduced in schools, airports, Federal buildings (where their presence is legally mandated), and stadiums.

I'm getting ready to dig into DFIB's financial status, but first, listen to this: by last year, the market for publicly accessible defibrillators had grown to roughly US$200 million, up from US$60 million six years before.

So what? Well, DFIB has a 25% market share for publicly accessible defibrillators. And 70% of their revenue comes from that 25% share. Salivating yet? Good.

Warning: You may need to find a defib device by the end of this article.

First off, DFIB beat the pants off of the Dow and the NASDAQ in 52-week performance. Whereas the Dow and the NASDAQ increased 31% and 60% respectively, little old DFIB went from US$1.20 just about a year ago to US$4.18 within the past few weeks. That's a blood-vessel-busting 248% gain.

The strength is in the numbers. Plain and simple.

Revenue for the quarter ended June 30, 2003, increased US$1.686 million or 13.1% to US$14.527 million, compared to US$12.841 million for the quarter ended June 30, 2002. This increase is primarily attributable to a 43.1% increase in sales of AED's and related accessories to US$13.276 million this quarter, as compared to US$9.279 million in the second quarter of 2002.

This increase in AED revenue was partially offset by a 79% decrease in sales of emergency defibrillators and patient monitors to US$665,000 this quarter, from US$3.174 million last quarter. This decrease resulted from lower sales to the Middle East due to the war in Iraq and from the planned phase-out of certain low-margin, legacy product lines.

Here's something that could boost those sales a bit. In early August, DFIB announced that the U.S. Food and Drug Administration has granted the company 510(k) clearance to market its new Powerheart AED G3, designed to be the easiest-to-use and most technologically advanced automated defibrillator for use by laypeople and trained professionals in the corporate, public access, municipal, home and medical markets.

Another key thing about DFIB I'm homing in on is volume. Take the DFIB chart and look at August's volume. See that huge spike right in the middle? That happened right after the FDA approval announcement. Volume leads price. You want an example of that? Three days after the FDA-led volume spike, DFIB soared to US$4.18. Its high a year ago at that time? US$2.15.

It is my opinion that DFIB is going to be a slow burner. I'm not looking for a rapid-fire triple-digit gain here. I want you to get positioned in DFIB for the future. I placed my *Fear and Greed* readers in DFIB, and sold for a 20% profit in one month's time. 20% profit aside, I think DFIB still has juice left in the paddles for *Taipan* readers.

Don't be surprised to see this stock make a run for the high US$4's. Buy at levels up to US$4.50, sit back, and prepare to be... hocked.

TAIPAN

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