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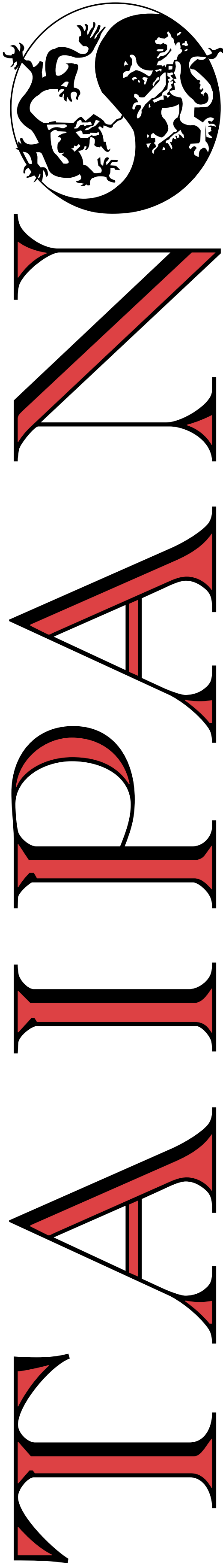

Fresh from "Sin City" —

Taipan discovers a two-month, 180% profit opportunity in the hedonistic, plague-ridden underbelly of humanity

by Christian DeHaemer

The trite platitude at the poker table is that if you don't know the sucker—it's you! It's a bit of wisdom that can be ascribed to all of Las Vegas, the gambling mecca of the New World. On my most recent trip, my admiration for the city of illusion grew exponentially.

You have to admire a town that passes itself off as having the best of everything—including heretofore unduplicated wonders of the world. There is a New York skyline, including the Statue of Liberty as well as the Empire State and Chrysler buildings. There is an Eiffel Tower and even a Venetian cityscape. Pseudo-Venice is surreal, with white puffy clouds overhead and romantic gondolas drifting by. It is true to the original, with the exception that the canals don't smell like dead cats. (And one needn't bother with those pesky foreigners.)

Buy VLGC three days to a week after October 29, 2000, as soon as the chart shows an uptrend. You should be able to get in under US$5. Our sell point is the next resistance level, around US$10-$14 on the share price.

Daydream reliever

Vegas is about exchanging core dreams for cold cash. Even its name is a lie, *meaning "grassland"*—when it's really a desert. Vegas is the ultimate fantasy machine—refined over the years—designed with the sole purpose of separating fools from their money. The project is so well conceived and so ingeniously plotted, the very sidewalks are aligned against you.

We all know about the pure oxygen pumped in to keep hapless dolts awake at their slot machines, pulling the levers until the black grime of a thousand hands is ground like greed into their sticky palms. There are no clocks. Windows are absent. Time does not exist.

The constant clown music is set just below the clanging sound of the winning slot machines. And don't forget the copious amounts of free booze sloshed out by silicone-racked harlots and delivered right to your table.

When I tried to flee this adult cartoon and take a simple walk outside the complex, I was obstructed by sharp plants and zooming taxis. Finding a sidewalk, I started blithely down the path, vainglorious in my escape. It meandered past styrofoam porticoes and Disneyesque cupolas, weaving through a dense and beautiful desert garden and ending in a secret gate… the other side of which I found—the casino. Brilliant!

Parallel universe

The comparisons to Wall Street are obvious. Both are popular industrial dream-sellers run

(over, please)

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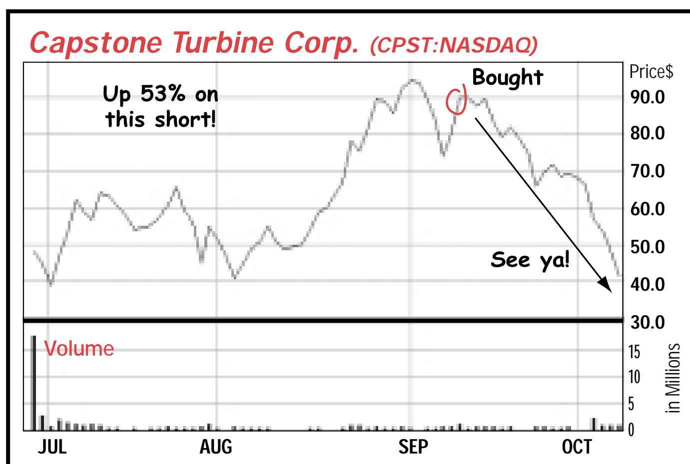
by ethnically and sexually homogeneous insiders who give up just enough bait to keep the pigeons flocking to the feeder.

The lure of easy riches, coupled with exacting, state-of-the-art demographic information and slick media engines, align to take the greatest possible amount of your hard-earned cash. Even your last quarters are sucked into the clanging machines at the airport on your way out of Dodge.

But you can beat them at their own game

I've been talking about float games and the legal manipulation of stocks for a couple of months now. Last month, I told you about **Capstone (CPST:NASDAQ)**, an over-inflated alternative energy company that was soon to be inundated by an abundant supply of stock.



Taipan recommended that you short CPST above US$90. If you followed that advice you would be up 53% in under a month. As I write this, Capstone is trading at US$42, just above support. I would claim that this validates my lock-up theory, if I hadn't already backtested more than 1,000 stocks going back a year.

Diary of a lockup expiration

Someone once said, "Never invest on a level playing field." Good advice. In investing, as in life, you always want to bargain from a position of strength.

Advantages are gained from doing your homework, having a friend in the right spot, or good old-fashioned experience. In this case, the lockup expiration gives you the edge. The methods of the Wall Street deal-makers, compounded with SEC regulations, give you a unique opportunity to profit.

This month I'd like to recommend a stock in an industry that has been growing faster than the gross population of kids with scooters. I will follow the same effective trading method we used to profit so handsomely from Capstone. Only this time, we are going long.

Mutants among us

ViroLogic (VLGC:NASDAQ) is a biotech company developing products to improve the treatment of viral diseases. With a technology that goes by the name of PhenoSense, ViroLogic wants to become an important cog in the treatment of AIDS and hepatitis B and C.

PhenoSense HIV is a test that measures resistance and susceptibility of a patient's HIV infection to antiviral drugs, and provides doctors with the information they need to prescribe the most effective drug treatment.

The idea is that each patient has his own degree of ability to fight certain strains of HIV. To effectively treat HIV, doctors must know which strain the patient has and how it is reacting to the various drug cocktails used to treat it.

Prior to PhenoSense HIV, determining the correct personal treatment was difficult because of the mutating nature of this affliction.

The test has many benefits over conventional methods of testing a mutating resistance. Whereas PhenoSense has a rapid turnaround of only 14 days, the standard test requires three to four weeks. Furthermore, PhenoSense provides highly accurate (95%), reproducible, and individualized drug-susceptibility results.

The assay can be performed on small plasma samples (e.g., viral loads as low as 500 HIV RNA copies/mL), and can detect sub-populations of drug-resistant virus at concentrations as low as 10% of the total virus population.

I'll skip the detailed explanation of how it works. But just so you know, this kind of laboratory analysis does not require FDA approval and is regulated by the Health Care Finance Administration (HCFA) instead.

Reduces costs

The PhenoSense HIV Select panel costs US$775. The PhenoSense HIV Comprehensive panel costs US$895. The costs are higher up

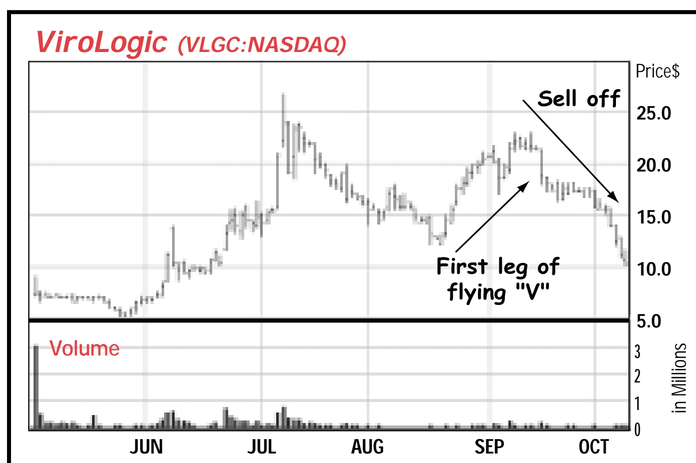
front over traditional methods, but it offers more accurate tests and substantially reduced costs over time.

Adam Smith investing

This is a supply and demand play based on the sudden availability of new shares in the market. The current market capitalization is US$206 million. There are 19.8 million shares outstanding. VLGC expects to control losses in 2001—US$0.63 a share, down from US$10.4 over the past four quarters. Q3 losses are expected to be -US$0.31 a share.

The current float is 5 million shares. However, on October 29, 2000, the lockup will expire and 10 million new shares will become available for sale. As you can tell by the chart above, the two-month selloff is well underway.

Note the classic double-top formation and the first downleg of the "*Flying V" Lockup Effect*. Eerily similar to the Capstone chart, isn't it?



Flood tide

Our purpose is to buy after the dip, about a week following the flood of new stock onto the market. Typically what happens is that insiders—including venture capitalists who are holding stock at pre-IPO prices—sell some or all of their shares.

As this happens, the company releases positive news to help buoy the share price. The underwriters will also take this opportunity to reiterate their "strong buy" recommendations.

ViroLogic (VLGC:NASDAQ) Share Information	
New shares eligible for sale:	10,822,517
Percent of shares outstanding:	54.8%
Percent of float at IPO:	216.45 %
Shares outstanding:	19,763,000
Average daily volume:	59,097

In this case, the underwriters are **CIBC World Markets**, **ING Baring** and **Prudential**. There are no other covering brokers. All three currently have "strong buys" on the VLGC. Brilliant!

Surge of optimism

This spark from Wall Street's media machine should kick off a new uptrend. *Taipan* will determine this by using the MACD indicator. If a new uptrend does not develop by November 17, we will let it go and move on to the next trade.

I will let you know on the Friday hotline (www.taipanonline.com) as well as in the e-dispatch when this new uptrend occurs. If you have not already signed up for *Taipan's* daily e-dispatch, please do so. There is a link at *Taipan's* web site.

Plan to sell this stock roughly two months after you purchase it—gain or loss. This is in no way a long-term holding. Brian Hicks, our resident Biotech Buddha, tells me that Q4 is traditionally a banner time of year for this market segment, due to the plethora of conferences. And he should know, as he sits under the Bo Tree of Biotech Happiness.

As a pure play on Wall Street greed, mortal sin and the continuing ascent of modern medicine, buy VLGC three days to a week after October 29, 2000, as soon as the chart shows an uptrend. You should be able to get in under US$5. Our sell point is the next resistance level, around US$10-US$14 on the share price.

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Fax: (650) 635-1111

HISTORIC AND QUARTERLY RESULTS REVENUE (Thousands of U.S. dollars)		
	1999	2000
MAR	85	877
JUN	166	1,947
SEP	0	—
DEC	818	—
TOTALS	**1,069**	**2,824**

EARNINGS PER SHARE (U.S. dollars per share)		
	1999	2000
MAR	0.510	--4.193
JUN	0.510	-0.280
SEP	0.000	—
DEC	5.930	—
TOTALS	**-6.950**	**-4.473**

This 60-cent stock could be the next XOMA!

Buy DBOT as a ground-floor play on antimicrobial peptides

by James Passin

When I discovered **Xoma (XOMA:NASDAQ)** in 1996, it traded around US$4 per share. At the time of the initial recommendation, Wall Street analysts completely ignored the stock.

After meeting with management and reviewing the company's revolutionary work in both antimicrobial peptides and monoclonal antibodies, I determined that XOMA's market valuation was ludicrously depressed. It may have been a nerve-shattering, sickeningly volatile ride. But my bullish views on the stock have been vindicated.

I downgraded XOMA to a "Hold" when it blew through my US$14 target near the peak of the Q1 biotech bubble. This downgrade was purely technical. I remain a believer in XOMA's management and pipeline and would recommend holding on to your shares for further long-term gains. However, I find it hard to recommend the stock as a new money buy, given the glowing Wall Street coverage and its US$750 million market cap.

During my research into the maligned field of agricultural biotechnology over the last 12 months, I uncovered a tiny company with an intriguing antimicrobial peptide technology: **Demegen (DBOT:OTC).** In my view, DBOT's successes in agbiotech alone warrant a US$2 to US$3 share price. But the real kicker is pharmaceuticals: *DBOT is about to launch several clinical trials for human biotech products*. Given DBOT's US$0.60 share price and US$17 million market cap, the downside is small compared to the massive and immediate upside.

As a high-risk play on antimicrobial peptides, I recommend Demegen (DBOT:OTC) as a Speculative Buy with a one-year target of US$1.50 and a three-year target of US$5. Call me biased: my fund owns the stock—a clear indication of my belief in DBOT.

Lysis

DBOT's peptides destroy pathogens such as bacteria through a mechanism of action called lysis**.** Lysis is the process of disrupting the wall of a cell. When you punch enough holes in a cell wall, the cell dies. Lytic peptides work by punching holes in the walls of pathogenic cells.

The human body uses lytic proteins and peptides (peptides are basically small proteins) as part of its natural immune system. An example of this is Bactericidal/Permeability Increasing protein (BPI), the molecule that forms the basis of XOMA's antimicrobial products. Lytic peptides offer a revolutionary means of fighting life-threatening diseases, such as *antibiotic-resistant superbugs*.

The first lytic peptides were isolated from the natural immune systems of humans, silkworms, frogs, and other animals. While the initial focus of lytic peptide research was pathogen destruction, it has become evident that certain lytic peptides have multiple mechanisms of action against diseases. Some of the same peptides that can kill bacteria appear to have possible anti-angiogenic activity, the Holy Grail of cancer research.

One of the pioneers of lytic peptide research is Dr. Jesse Jaynes. While on the faculty of Louisiana State University, Dr. Jaynes discovered novel synthetic peptide-like molecules that appeared to have powerful lytic activity. In fact, Dr. Jayne's structures appeared to be far more powerful and far less toxic than any peptides that appear in nature.

Dr. Jaynes's work forms the basis of DBOT's technology. LSU transferred key lytic peptide patents for agricultural applications to DBOT (two patents related to Jayne's first-generation structures were transferred to a company called **Helix Biomedix [HXBM:OTC]**). While at Demegen, Dr. Jaynes invented new families of molecules, including a series of unique beta-pleated sheet designs. Dr. Jaynes, DBOT's co-founder, is still with DBOT as VP of Research.

There are at least 10 public biotech companies in the field of anti-microbial peptides. Over 300 antimicrobial peptide patents have been filed in the U.S. While the principal competitors currently have much deeper pockets, DBOT's technology puts the company in a strong competitive position. To my knowledge, DBOT is the one of the few peptide companies with the discoverer of the technology still on staff.

Low-priced bet on the agbio revolution

DBOT has designed genes that express its antimicrobial peptides in plants and animals. If DBOT's gene is inserted into plants, you can create crops that naturally resist bacterial and fungal infections—infections that cause billions of dollars in recurring damages to farmers.

Most of the competition in the agbio space seems to be focused on insect resistance and herbicide tolerance. While this is a logical approach for herbicide and pesticide manufacturers, it leaves a huge chunk of the market up for grabs.

Dow Agrosciences, a division of Dow Chemical, has paid DBOT over US$2 million in cash, plus additional fees including milestone payments, research support, and royalties, for two licenses from DBOT. These licenses include disease-resistant and nutritionally enhanced crops.

DBOT's peptides seem to have broad efficacy against a number of major cash crop diseases. Assuming significant market penetration, I believe that *DBOT's antimicrobial ag products could eventually generate tens, if not hundreds of*

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millions in revenues. I can't think of a better partner than Dow to help dominate the market…

Applying its vast knowledge of protein structures, DBOT has figured out how to make protein-enhanced sweet potatoes. These and other plants could catch on in developing countries—and generate substantial revenue for DBOT…

If you read through recent press releases, you'll see a number of agriculture-related announcements. The market doesn't care about agbio (so far). However, if my bullish views on agbio are correct, then DBOT's license with Dow could trigger a massive re-rating of the stock.

Out of the shadows and into the clinic

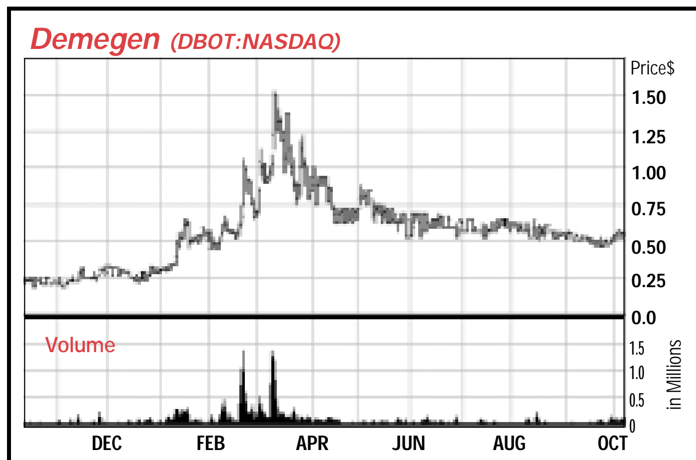
In my mind, the Dow licenses validate DBOT's peptide technology platform. *Why would Dow attempt to commercialize the technology if it didn't address a large market?*

DBOT is about to apply its deep knowledge of lytic peptides to human pharmaceuticals. I expect DBOT to announce 3 to 4 Investigational New Drug applications (INDs) over the next 12 months. DBOT's initial biotech products include a topical gel for infected burns, a topical gel for infected wounds, and a vaginal gel for killing sexually transmitted diseases.

The announcement of one or more INDs should trigger a re-rating of the stock from agbio to biotech status. Considering its depressed market cap, I don't believe the market is assigning any value to DBOT's biotech product pipeline.

I also expect DBOT to release additional preclinical results from its cancer research. DBOT's *in vivo* results were even better than its *in vitro* results, suggesting that DBOT's anti-cancer peptide works through one or more unexpected mechanisms of action, in additional to cell lysis. Based on the company's outstanding success in animal models, I am excited about the release of additional information on its anti-cancer peptide. In addition, *DBOT may release preclinical results from its cystic fibrosis research over the next 6 to 12 months.*

DBOT's topical vaginal gel targets chlamydia. The vaginal gel is a potential blockbuster drug. There are many millions of infected vaginas in the world. Activist pressure groups have been clamoring for topical anti-STD gels to distribute to the third world. *This product could generate substantial media buzz for DBOT once it's in the clinic.*



The key to DBOT's biotech pipeline is its *small, stable, highly potent lytic peptides*. While I am not a molecular biologist, I know a screaming bargain when I see one.

DBOT trades at a massive 95% discount to its peer group. Given DBOT's limited cash resources, a discount is warranted. But US$0.60 per share is ridiculous. I believe that the imminent announcement of INDs will drive DBOT back up to the US$1.50 level, which would mean a more reasonable US$40 to 50 million market cap.

High risk/high return

The floor on this stock should be the US$0.45 to 0.50 level. There is some convertible preferred stock with a US$0.45 conversion price held by a single financial investor. DBOT raised capital through a private placement of stock at US$0.50 (the stock is locked up until March 2001; warrants were attached with a US$0.75 strike). Even on a bad day for the market, the US$0.45 to 0.50 level seems to offer strong technical support.

There is a great deal of risk to this stock. First of all, DBOT is an OTC BB-listed penny stock (however, it is fully reporting, so regular information is available). Secondly, even though DBOT is lean and mean (total G&A in FY99 was only US$780,000!), the company will need to sell additional equity to stay in business, which means some dilution for shareholders. Last of all, the warrants and convertible preferred represent potential overhead supply, which could temporarily cap gains in the stock. As with any development-stage biotech, you should view this company as an aggressive, long-term speculation.

Given the Dow licenses, the exciting preclinical results, the potential blockbuster drugs, and the expected news flow over the next 12 months, DBOT is an excellent high-risk bet—if you can stomach the volatility of an illiquid stock. Management has a big incentive to create value: the CEO is a large shareholder and the new COO took milestone-triggered stock options as part of his compensation package—an excellent sign for the stock. **I view Demegen (DBOT:OTC) as a Speculative Buy with a one-year target of US$1.50 and a three-year target of US$5.**

For more information, contact **Demegen, 1501 Brinton Road, Pittsburgh, PA 15221, tel. 412-241-2150, fax 412-241-2161**, or visit the companies website: www.demegen.com. I strongly recommend reviewing the company's SEC filings before investing in the stock.

James Passin manages the Firebird Global Small Caps Fund for Firebird Management and is a Contributing Editor with *Taipan*. Passin's fund is currently a shareholder in Demegen. Passin's views are strictly his own and not necessarily those of Firebird or *Taipan*.

Follow the leader

Beware the Johnny-Come-Latelies in the biotech bull market

By Brian Hicks

It doesn't seem very long ago that I recommended my first medical technology stock in *Taipan:* a little-known company in the Research Triangle called **Closure Medical (CLSR:NASDAQ)**.

Taipan recommended buying stock in this company, a maker of a wound glue called Dermabond, at US$5.75 a share in October 1996. Less than a year later, we sold the stock for over US$32 a share.

We're back in it again, but that's not the point.

When I started researching the biotech sector in 1996, do you know how many pure biotech mutual funds existed?

Zero. Not one.

Recommending a biotech stock at a cocktail party those days you were all but guaranteed a punch in the face.

Believe it or not, that's the best sign for a market contrarian (not that I consider myself one).

But nobody would listen to me then.

Today it's a different story.

Gold-bug market gurus who used to short the high-tech economy are now forming a conga-line into the biotech sector.

This sends my contrarian instincts into overdrive.

But I'm not ready to sell the farm just yet.

Why? Because I am confident that *Taipan* is positioned in three of biotechnology's top stocks: **Millennium Pharmaceuticals, (MLNM:NASDAQ), MedImmune (MEDI:NASDAQ) and Aviron (AVIR:NASDAQ).**

I am convinced that all three of these stocks will reap massive gains over the next 3 to 5 years—I'm talking 300% from today's prices. Want an indication of the current biotech sector? Take a look at the AMEX Biotech Index. On a year-to-date measurement, the index is up a staggering 92%. Yes, you read that correctly, 92%!

No matter how you look at it, biotechnology stocks are devastating the rest of the market. Just compare the BTK to any of the major indices. While the Dow, NASDAQ and S&P 500 are all flat for the year (at least as of this writing), biotechs are approaching triple-digit gains. I am as bullish as ever on the outlook for biotechnology… and these three biotech stocks (all of them core holdings in *The Cutting Edge*) are going to lead the change.

But first, some sells

Before I get into the reasons why I like MLNM, AVIR, and MEDI, I first want to sell some positions—starting with a huge winner for the *Taipan* portfolio, **Agritope (AGTO:NASDAQ).**

To refresh your memory, Agritope was a speculative play on agricultural biotechnology. When it comes to genetic modification, one group has been doing it longer than anyone else. But with all the hoopla surrounding the genome project, the "original" biotechnologists—farmers—were getting overlooked. We initiated a trade on AGTO for around US$5 a share.

On September 8th, Agritope announced that it was being acquired by **Exelixis (EXEL:NASDAQ).** This caused AGTO to jump 60% in one day. To date, we are up over 100% on Agritope, and I want to take some profits. **Sell Agritope at the market.**

Also sell **AVI Biopharma (AVII:NASDAQ).** We originally bought AVII in *Taipan* for under US$3.50 a share. Today it trades for about US$8 a share—**giving *Taipan* a nice gain of 128%. Sell AVII at the market.**

This time it's different: The best of the rest

I predict Millennium will become one of the best biotech stocks in the market within 10 years. Why?

Well, for starters, Millennium is a combination of a drug discovery company (traditional biotechnology and big pharma) and a genomics company.

The scope of this company's platform is awesome.

Millennium is involved in three major areas: cancer, metabolic diseases (including obesity) and inflammatory illnesses. The company also has significant programs for infectious diseases, cardiovascular diseases, and diseases of the central nervous system.

All in all, Millennium has 9 products in the clinic. Massive.

And the company's list of partners reads like a "who's who" in the biotech and pharmaceutical industries.

Take a look: Abgenix, Genentech, Schering AG, Becton Dickinson, Genzyme, Warner-Lambert, Roche, Medarex, Hoechst, Bristol-Myers Squibb, Incyte, Lexicon Genetics, Astra AB, Eli Lilly, Wyeth-Ayerst, and Pfizer.

Like I've said a hundred times before, if the likes of Pfizer and Genentech are eager to strike deals with Millennium, there's something there… *and it's big.*

So, from this brief analysis alone, it's clear that this company is involved in some massive markets.

This may account for the company's cash position (R&D budget) of over US$644 million.

Currently, the stock is trading at a market cap of around US$14 billion. This should swell in the years to come. And I wouldn't be surprised if it becomes a US$100 billion

(concludes on page 9)

How to play the coming 3G spectrum auctions for fun and profits!

You know it's coming and you gotta make a buck

by Briton Ryle

Last month's Agora Wealth Symposium was held in Las Vegas, the most strangely wonderful and horrifying place in America. I recently wrote about the national obsession with getting rich quick, but I had no idea.

Vegas is overwhelming. And the sinister intention of the place is obscured beneath a whirlwind of opulent hotels, amusement park rides, X-rated hypnotist acts, all-you-can-eat lobster and prime rib buffets, dancing girls, and free booze. Of course, there's no such "buy you dinner first" courtesy on Wall Street.

Like the stock market, Vegas is there to take your money. But the true genius of the place is the way it makes people feel good about getting fleeced. Drop a grand on craps and it's just "part of the experience."

Funny that the old men who sit at the poker tables taking piles of chips from the rubes rarely crack a smile. This is business to them. And I got the feeling they win more than they lose.

It's no different in the financial community. Witty, lighthearted TV ads invite you to a fun online trading party. But once inside, your hosts turn out to be humorless analysts and market strategists who offer biased advice as if they had your best interests at heart. Nothing could be further from the truth.

Too little, too late

How do you explain downgrading Intel after it's dropped 30%? Or Motorola getting kicked in the pants? Nokia, Ericsson, LSI Logic… the list goes on and on. Oil stocks are being recommended when oil is likely at the top of its cycle.

And this gets to the heart of why the recent Agora Wealth Symposium was such a great event for investors and speculators alike. Experts in natural resources, technology, foreign currency, bond and income investing, all offering insights into their field of expertise.

I saw firsthand how important it is for *Taipan* members to have us working for you. Seriously, now: We're not in the back pocket of some company that just went public. We're not here to protect the interests of our big clients at the expense of other investors. We're here to give you a unique view of the financial world. And how well we do the job determines whether we can put food on our tables.

Seeing the future

Verizon was recently downgraded by AG Edwards. Of course, the stock's at a 3 year low. Hambrecht downgraded Sprint's wireless group just days after a 25% selloff. And just in time to see the stock jump from US$28 to US$37 in a little over a week. Investment houses lined up to downgrade Nokia when it forecast lower sales growth and profit margins for its third quarter.

Solomon Smith Barney, Morgan Stanley, DLJ, Bear Stearns, Lehman Brothers and Bank of America all downgraded the stock after it dropped almost 20%. Two of the six had rated Nokia a strong buy before the earnings warning and one even considered it a top pick.

France Telecom, Deutsche Telecom, and British Telecom had their credit ratings cut and watched their stock prices drop between 20 and 25% after acquiring 3G licenses in Europe. And the same thing will happen again in the U.S. Any time you know an event is coming, you should at least try and find a profit opportunity in it. And, by George, I think I've got it.

Profit from the inevitable

At the Agora Wealth Symposium, I outlined a strategy for investing in wireless carriers that I'd like to share with you. I'm going to recommend two wireless carriers that are likely to rally by the end of the year—and then get downgraded when U.S. 3G spectrum auctions come around. This gives *Taipan* members two opportunities to profit.

My strategy should yield 50% profit on each stock in the next six months, and give *Taipan* members positions in two strong wireless carriers. I also believe both companies could easily be acquired during this timeframe.

The winners are…

My two favorite wireless carriers are **Sprint PCS (PCS:NYSE)** and **Leap Wireless (LWIN:NASDAQ)**. I know, it sounds like an Olympic event: the 100-meter sprint and leap. Although the fundamentals of each company are different, the timeframe and catalyst for both plays are roughly the same.

Before I outline how to profit from current misperceptions of wireless carriers, it's important to understand what's going on behind the downgrades. In general, there are two possible causes for a downgrade—revenues and costs. In this case, both are present.

The driver's seat

The controversial driving force behind the future of the wireless sector is the wireless Internet. Bringing data to

(over, please)

the cell phone requires three things: more spectrum, new phones and faster networks. The reason behind the warnings at handset manufacturers Motorola and Nokia is that right now mobile phones are between generations. Voice-only phone sales are slowing, and Internet phones have yet to pick up the slack.

Carriers are currently adding capacity to networks and acquiring new spectrum. The result: companies are spending more and earning less. Both issues are real. They're also temporary. And if you understand what's going on, you can fearlessly take positions in strong companies while the investment community at large says the sky is falling.

The success of NTT DoCoMo's wireless Internet service in Japan is well documented. And I don't see a reason to think such services will be any less popular in the U.S. and Europe, over time. That's the key to this whole puzzle—time. The promise of the wireless Internet will take time and money. But once networks are in place, revenues will more than cover the investment.

The companies

About 2 years ago, Sprint split its operations in two. One stock, PCS, tracks the wireless side of the business. The other stock, FON, covers the long distance and data side. I'd avoid FON stock like the plague.

Sprint owns and operates one of two national CDMA wireless networks in the U.S. (Verizon has the other.) It currently has around 7.5 million subscribers. And, along with Verizon, it's leading the push in the U.S. to offer Internet data and entertainment to mobile subscribers.

France Telecom and British Telecom own 20% of Sprint Wireless. In addition, Sprint has partnered with Microsoft and Yahoo! to deliver content. There's no doubt that France Telecom, British Telecom, Yahoo! and Microsoft want a piece of the U.S. wireless market. And Sprint is their ticket. Expect to see some combination of these five companies form a consortium to bid on 3G spectrum.

Market misperceptions

Sprint was unduly hammered when it announced that subscriber growth for 3Q would be 12% slower than predicted. If slowing subscriber numbers were the trend, then the 30% selloff would be justified. But there are some signs that subscriber growth figures will be stronger after the next couple of quarters.

One factor that contributed to the growth shortfall is actually very positive. Sprint will cancel the accounts of some users who don't pay their bills. Absolute subscriber growth may suffer, but the quality of revenues and profit margins should increase.

I believe that price of service is also a factor. Sprint already has competitive pricing plans. And they don't have the network congestion problems that **AT&T Wireless (AWE:NYSE)** does. Besides, AT&T's network technology, TDMA, is the least ready for the added traffic that 3G will bring.

As wireless service plans come down in price, people will begin migrating from circuit-switched phones to wireless as their primary phone link. In fact, if you're in the right area, you can already get unlimited local service from one trendsetting wireless carrier. More on that a little later.

Buy Sprint under US$35

Sprint currently trades in the mid 30s, and is one of the best bargains in the space. Remember, MCI Worldcom offered US$129 billion for Sprint. That offer represents a 50% premium over the current price. And I doubt Sprint would accept much less for future acquisition offers.

The acquisition scenario is gravy and shouldn't be counted on. What I am counting on is this: Wall Street went overboard when it sent Sprint PCS into the upper 20s. Mistakes like that don't last. I expect to see Sprint return to the low 40s during any sustained rally on the NASDAQ.

We'll need to sell in February, before the U.S. 3G spectrum auctions get underway. The inevitable downgrades will give us another sweet entry point.

Part 2

This strategy should work for any of the major U.S. wireless carriers. But I think Sprint PCS and Leap Wireless are the best carriers to own. I've talked a little about Sprint. Here's the lowdown on Leap.

Leap Wireless was spun off from Qualcomm 2 years ago. Former Qualcomm co-founder and president Harvey White is Leap's CEO. Mr. White is wireless a visionary who pioneered the flat-rate wireless service plan through Leap's subsidiary, Cricket.

I first discovered Leap during a small market spectrum auction in the spring of 1999. Since then, the company has acquired spectrum in over 50 cities in 27 states, covering 45 million potential subscribers. 35 cities will be operational by the end of next year. In addition, it has a 28% stake in Mexican carrier Pegaso. Interesting to note that Sprint also owns 30% of Pegaso. Leap recently sold its stake in a Chilean wireless venture for US$300 million.

The promise of flat-rate wireless plans in emerging markets is especially exciting. In countries like Mexico, people who live outside a major metropolitan area have virtually no chance of ever getting copper to the home for landline phone service. Wireless is their only hope. The one risk is that such populations are usually pretty poor. To ensure against unpaid bills, Leap added the words "prepaid" to its flat-rate plan.

Stealth play

Leap is still building out networks in its coverage areas. That means it's losing money. But losing money isn't a huge concern for Leap because of its relationship with Qualcomm. Of course, Leap has entered into the usual

equipment loans with companies like Lucent and Ericsson. But it's this relationship with Qualcomm that's really interesting.

Qualcomm is loaded with cash. And after selling off virtually all of its divisions, they may be looking for something to do with the long green. I believe Leap represents a stealth play on the wireless web.

The big dance

There's still a lot of companies looking for a dance partner for the big U.S. 3G hoedown. But carriers are getting scarce. Short of a buyout, Sprint's dance card is full. And Verizon, partly owned by the U.K.'s Vodafone, is probably also spoken for. AT&T Wireless and Nextel will both have to shell out huge amounts of cash to upgrade technologically inferior networks. I wouldn't look favorably on any partnerships involving these two.

An FCC official told me there's nothing to prevent the AOL/NTT DoCoMo alliance from bidding on U.S. spectrum. But first I'd expect them to bring an established U.S. carrier into the fold. The same official said that Cisco and PSINet showed some initial interest in bidding in a recent 700 MHz auction.

Leap is an outside shot as a 3G auction participant. But even if it doesn't enter the bidding, it's still an excellent investment on its own merits. **I consider Leap a good buy under US$50.**

Let me repeat

The object of this strategy is to take advantage of recent and future weakness in wireless carriers. Sprint and Leap are both well off recent highs, and I expect at least 20% appreciation in each stock by the end of the year. We should be able to sell with a nice profit in January, well before the U.S. 3G auctions get underway.

As it becomes clear that the U.S. auctions are going to be obscenely expensive, we should see a swarm of analysts knocking these stocks back down to very attractive levels. This play is all about timing. If we miss the entry points, we'll wait and see what happens. It's never a good idea to chase a stock. As always, if you'd like more information, please contact the companies.

MICROCAPS

(continued from page 6)

company by 2010.

I hate chasing stocks—especially when my original entry price was US$38 a share. *This stock recently tipped the scales at US$153 a share, a gain of roughly 400%.*

MedImmune (MEDI:NASDAQ)

Following in the footsteps of Amgen, MedImmune produces two FDA approved drugs, Synagis and CytoGam. Of the two, Synagis is the cash cow, accounting for 80% of the US$228 million in sales over the last 6 months.

Synagis treats RSV, or respiratory syncytial virus, a lower respiratory tract disease. You might not have heard of it before, but RSV is the leading cause of respiratory illness and pneumonia in infants. At some point in their lives, nearly all children will be exposed to RSV, so it's a huge market. Since Synagis is the only drug to treat RSV, MedImmune has a monopoly.

MedImmune recently got downgraded, causing the stock to give back 20 points in one trading day. I see this as an outstanding opportunity to open a position in one of the top biotech companies in the world.

With RSV season approaching, I think shares of MedImmune could reach US$100 by early next year.

Forget the flu

I've been following Aviron since 1996. It's a stock that I simply love. But they've disappointed investors in the past. That's why we implemented a hedging strategy in *The Cutting Edge* to safeguard against a bloodbath. The bloodbath never came. In fact, just the opposite happened. Aviron went on to post an impressive rally.

Aviron's lead product is FluMist, an influenza vaccine administered through a nasal spray. This delivery method is the reason *Taipan* initiated a buy recommendation.

Traditionally, flu vaccines have been delivered by injection. But the pain associated with needles caused resistance to further market expansion. Using a nasal spray is not painful at all.

Now, FluMist is entirely different from other recent approvals such as Relenza and Tamiflu. Instead of just treating the virus, FluMist actually prevents you from getting the flu.

In a Phase III trial in children, FluMist demonstrated a 1% incidence of flu in treated patients, versus 18% for placebo. These stunning results prompted big pharma Wyeth Lederle to strike a marketing partnership with Aviron. Assuming Aviron meets its milestones, the deal could be worth in excess of US$140 million.

FluMist has the potential to be a blockbuster—with estimated initial sales of the product reaching US$500 million. Once the ramp-up in FluMist is complete, Aviron's top line should grow at a robust clip—climbing from US$106 million in 2001 to over US$347 million in 2004.

Currently Aviron trades at a market cap of about US$900 million. If our valuation model is correct—and assuming FluMist gains FDA approval—AVIR could handle a market cap in the US$7 to US$10 billion range.

So I see a lot of upside from current levels.

We last bought Aviron at around US$22 a share. As I write this, the stock is approaching US$60 a share for a gain of 172%. **Hold Aviron for more gains.**

Shaving God's dice

Time to start bottom feeding the NASDAQ 100

By Adam Lass

Sitting back at the end of the day, feet up, martini in hand, watching the evening news. Guy in the high priced suit and airbrushed hair says the NASDAQ's up 100 points. And you think, *"God, if only I could have seen that coming, I could have made a mint."*

If only you had an accurate barometer of the market, a true indicator of fair or stormy trading, you'd be—well, I don't need to tell you how rich you could be. It would be like owning a lock on the million-dollar lottery number or the winner of next Saturday's Notre Dame game.

A drunkard's walk

It's a shame, but no such crystal ball exists. At least that's what we're told by the experts. The market's path is a drunkard's walk, a blind stagger from side to side—total, fluid chaos. You've seen and heard it a thousand times: *Past performance does not guarantee future profits.*

Well excuse me. After all that conventional wisdom, I'm going to tell you something that may sound odd and maybe a little off-putting, but here it is: You can predict the future.

God's dice

This issue of predictability is hardly new. Einstein spent his life sorting out the hidden order underlying the seemingly random universe, only to see critical aspects of his theory shredded by Heisenberg's "uncertainty principle."

Einstein's answer that "God does not play dice with the universe" is finally being proven right by the newest generation of chaos theorists (although the dice may be shaved, mind you). And lo and behold, when these same tenets are applied to the drunken market, repetitive, predictable patterns begin to emerge.

When this sort of number-crunching is applied to the financial sector, it's called technical analysis (or TA for short). And while it may not be able to tell you if the next card in the deck is an ace, it sure can tell you the odds on drawing an inside straight.

Crowd behavior

I love to watch crowds of all kinds. Folks in the supermarket, kids at concerts, demonstrators at rallies, traffic jams. Crowds like these may be composed of unpredictable, individual elements, but once these elements come together as a group, they behave almost as if they are alive, and they all establish predictable patterns.

TA can't predict the news—it can't tell you whether some judge will try to break up Microsoft. But by quantifying the past behavior of the great sweaty mass of investors, it can measure the herd's readiness to hear that news and make predictions as to the likelihood of investors moving in certain directions en mass. And it is those predictions that you can act upon to your profit.

When to buy and when to duck

The TA method I use is a proprietary system developed over 10 years. It's a blend of both western momentum

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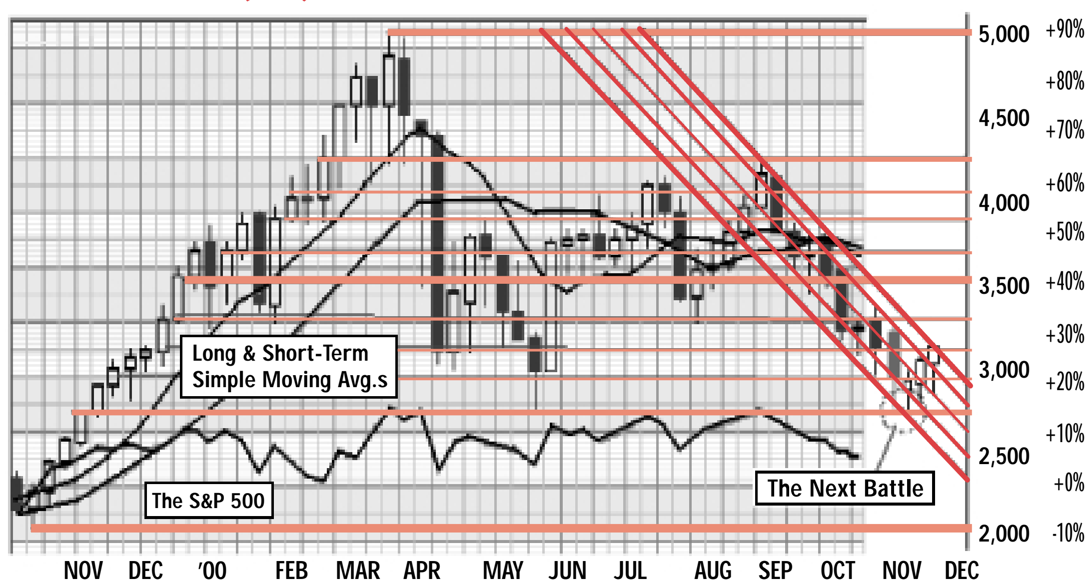
The NASDAQ 100 Index (NDX) forecast for the next four weeks:

Two steps and pause, two steps and pause... expect this dance continue for the next two weeks. Look for a major wrestling match between the bulls and bears around the strong 52-week 25% line at 2750, followed by a three-week run to the top of the long-term falling trendline peaking in late November. This run-up may be the beginning of the 2001 turnaround, but we'll have a clearer view on that story next month.



Supercharge your portfolio with Orion Power Holdings, Inc.!

by Siu-Yee Ng

I was on the phone one evening talking to a salesperson about installing cable at the house. After an excruciating half hour of trying to make this practically illiterate woman understand what I wanted, it finally came down to scheduling an appointment. There's a four-hour time window where customers have to wait for the cable man—that's what scheduling an appointment means today. Don't these people know that we work? I realized two things. The tight job market is causing companies to hire any Shmoe off the street. And monopolies provide poor customer service.

When I hear deregulation, I see opportunities for investors and consumers alike. After the Telecommunications Act of 1996 opened up competition in the telecommunications industry, consumers benefited from lower prices and investors reaped profits from the companies that emerged.

Well, that's happening now with the U.S. electric power industry as it shifts towards deregulation.

With deregulation, consumers will have a choice and increased competition will inevitably drive prices down.

Total electric generating capacity in the United States is approximately 783,000 megawatts, installed in approximately 3,000 individual facilities with an estimated US$224 billion in retail sales.

The passage of the Energy Policy Act in 1992 significantly expanded the opportunities available to wholesale power generators like **Orion Power Holdings, Inc.** Under this law, the Federal Energy Regulatory Commission (FERC) requires owners and operators of electric transmission facilities to give wholesale generators and other wholesale market participants access to transmission lines on a non-discriminatory basis. This right enables Orion and other wholesale generators to sell the energy they produce into competitive wholesale energy markets.

The Energy Policy Act also created a new class of generators—exempt wholesale power generators—that are not subject to portions of the regulatory structure otherwise applicable to electric utilities and their holding companies.

In April 1996, FERC adopted Orders No. 888 and 889, providing for nondiscriminatory open-access electric transmission services by public utilities, separate from wholesale electricity sales. This development has opened wholesale power sales to more competition. The U.S. Circuit Court of Appeals for the District of Columbia recently upheld Orders No. 888 and 889 in nearly all respects.

In December 1999, FERC issued Order No. 2000, which encourages and provides the principles for the establishment of a system of regional transmission organizations that would control the transmission facilities within their regions.

More recently, certain states have started to support complete deregulation of the electric generating industry. As of July 2000, 26 states, including New York, Ohio and Pennsylvania, have enacted legislation or issued comprehensive regulatory orders to restructure their electric power industries to promote competition in the wholesale and retail sale of electric power. Similar restructuring is being considered in virtually every other state.

Electric shock

Since 1997, approximately 145,000 megawatts of power generating capacity in the United States have been sold or transferred by regulated electric utilities. According to published sources, up to 70,000 additional megawatts of power generating capacity in the United States will be available for sale or transfer to wholesale power producers by the end of 2002.

As a result of these anticipated divestitures and the need to replace inefficient generating facilities, there exists a significant opportunity for investment in the power generation industry. Orion is acquiring and developing a portfolio of generating facilities in order to operate as a competitive electric generating and wholesale supply company in a deregulated marketplace.

Juicing up

Generating facilities can be categorized according to the way they produce energy for the region they serve. "Base load" facilities are those that provide at least some power at most times and are used to satisfy the base level of demand for power (or "load") that is not dependent upon time of day or weather. "Peaking" facilities are those that satisfy demand for power as it rises during the course of the day or when weather or other conditions increase demand.

Peaking facilities may be divided into several additional tiers, depending on the level of demand for power necessary for them to be required. Some intermediate facilities, although not required all the time, are used to satisfy the first incremental increases in demand above the base level, and are typically needed to satisfy regular daily power demand. Other peaking facilities are not used except on those occasions, such as hot summer days, when power demand reaches annual highs. The various tiers of base load and peaking facilities serving a particular area or region are often referred to as the "generation stack" for that area or region.

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Orion's current facilities are weighted towards base load and intermediate units, although the New York City Assets include several peaking units near the top of the New York City generation dispatch stack. The Midwest Assets are predominately base load facilities.

For administrative and energy distribution purposes, the United States and Canada are divided into a number of areas, generally referred to as "power pools" or "reliability regions." In some areas, the role of these power pools in managing the generation and distribution of energy is being taken over by new organizations, known as "independent system operators" (ISOs) and "regional transmission organizations," that will supervise a market-based system for generation and transmission of electric power. FERC oversees the operations of these organizations in the United States.

In many areas, there are physical constraints on the transmission of electricity that require the existence of generation services within a particular region to ensure that customers are supplied with electricity. These regions are referred to as "load pockets." Load pockets that cover large regions may themselves include smaller load pockets. The existence of a load pocket may require selected generating units inside the load pocket to produce electricity, even though less costly sources of electricity exist outside. Currently, Orion's assets serve load pockets in New York City, Pittsburgh and Cleveland. Load pockets can be mitigated with the construction of additional transmission facilities.

More power

Orion owns and operates power plants and sells electricity and a broad range of electricity-related products and services to utilities, municipalities, cooperatives and retail aggregators in the newly deregulated wholesale market.

Orion's growth has come entirely through the acquisition of operating facilities. Substantially all of its revenues will come from facilities acquired in 1999 and 2000 or in the future.

Wholesale power generators like Orion typically sell three types of product: energy, capacity, and ancillary services. Energy refers to the actual electricity generated by their facilities and sold to intermediaries for ultimate transmission and distribution to consumers. Energy is Orion's only product that is subsequently distributed to consumers by power retailers.

Capacity refers to the physical capability of a facility to produce energy. In some regional power markets, like the market managed by the NY ISO, a market for capacity exists apart from the market for the energy produced by that capacity. In other power markets, like the ECAR region in the Midwest, there is no market for capacity as a separate product and the value of the underlying capacity is included in the price of the energy produced.

Buy and sell

In early April 2000, the first auction of capacity in New York City was held by the NY ISO for the summer 2000 capacity season, which runs from May 1, 2000 until October 31, 2000. Orion bid 1,835 megawatts of capacity from its New York City Assets into the auction and was successful in selling all of that capacity at a price of US$105,000 per megawatt year, which is equal to the price cap imposed by regulatory agencies, for a total of approximately US$96.3 million.

Orion has sold all of the output of the Hydro Assets, including energy, capacity, and ancillary services, to Niagara Mohawk Power Corporation on a bilateral basis through September 30, 2001. Under this contract, Orion receives an annual fixed payment totaling US$71.8 million for the period October 1999 through September 2000 and US$73.6 million for the period October 2000 through September 2001, and a variable payment of US$20 per megawatt hour for all generation above approximately 2.2 million megawatt hours.

The actual targets are set on a quarterly basis to reflect seasonal fluctuations in energy production from the Hydro Assets, and payments are made monthly. If Orion fails to meet the minimum generation threshold, it must pay penalties to Niagara Mohawk. The 2.2 million megawatt hour target is approximately 78% of the average generation for the units over the last ten years.

Generation at hydroelectric facilities, however, varies based on precipitation. Due to the drought conditions experienced in the Northeast during the summer of 1999, Orion was short of the minimum threshold for the third and fourth quarters of 1999 by approximately 11%. This resulted in additional net costs of US$1.2 million for the year to meet its obligations (under 2% of its annual fixed payment from the Hydro Assets under the Niagara Mohawk agreement).

Orion has a gas tolling agreement with Constellation Power Source covering the Carr Street Generating Station, which continues until 2003. Under this agreement, Constellation Power Source will have the exclusive right to all energy, capacity and ancillary services produced by the plant. Constellation Power Source will pay for, and be responsible for, all fuel used by the plant. Orion is currently paying approximately US$3.6 million per annum as a fixed fee and US$3.07 per megawatt hour generated; both fees will escalate by approximately 2.5% per annum.

The drawback here for Orion is that periodically it relies on a single supplier for the provision of fuel, water and other services required for operation of a facility. Likewise, at times Orion relies on a single customer or a few customers to purchase all or a significant portion of a facility's output. The failure of any one customer or supplier to fulfill its contractual obligations would negatively affect financial results.

Consequently, Orion's financial performance is dependent on the continued performance by customers and suppliers of their obligations under these long-term agree-

ments and, in particular, on the creditworthiness of Orion's customers and suppliers.

Sparks flying

In April 2000, Orion acquired the Midwest Assets from Duquesne Light Company, and a subsidiary of Constellation Operating Services that was established to perform operations and maintenance services for the Midwest Assets. The Midwest Assets consist of seven power generating facilities, six of which are active, located in western Pennsylvania and Ohio. In an asset swap with FirstEnergy Corp, Duquesne Light Company recently acquired three of the facilities. The other four (including one retired facility) have historically been owned and operated by Duquesne Light Company.

With the acquisition of the Midwest Assets, Orion entered into a provider of last resort contract, giving it the right and obligation for a specific period to supply Duquesne Light Company with the energy to meet Duquesne's obligations as the provider of last resort to its retail customers in the Duquesne Light Company service area, which basically covers the greater Pittsburgh area. Orion recently agreed to extend the period covered by this agreement until December 31, 2004.

The Midwest Assets are located in an operating region known as the East Central Area Reliability Council, more commonly referred to as ECAR. The ECAR region is the second largest region in the United States ranked by energy consumption, with total demand in 1998, the latest year for which figures are available, of nearly 542 million megawatt hours. The ECAR region covers part or all of the following states: Indiana, Kentucky, Maryland, Michigan, Ohio, Pennsylvania, Virginia and West Virginia.

Deregulation in these states is at various stages. Some, like Pennsylvania, are well advanced toward full market-based competition, while others are still conducting early stage studies. The ECAR market is considerably more fragmented than other regions such as California, New England, and New York, which started deregulating earlier. There is no ISO or similar entity in place for the entire ECAR region, although the utilities in the region are proposing at least two plans for an independent system operator or a regional transmission operator. Given the competing proposals currently under consideration and the many divergent interests that exist in the ECAR region, any adoption of ISOs or similar entities will be gradual.

Generating money

Orion typically sells its products to electric power retailers, which in turn supply power to consumers. Power retailers include regulated utilities, municipalities, energy supply companies, cooperatives and retail "load" aggregators.

Orion may sell energy and ancillary services in advance under bilateral supply contracts with specific buyers. Alternatively, Orion may sell them into regionally operated day-ahead and real-time markets. The principal factor affecting recent changes in Orion's results has been the timing of its acquisition of new facilities. Carr Street Generating Station was acquired on November 19, 1998; Hydro Assets on July 30, 1999; New York City Assets on August 20, 1999; and Midwest Assets on April 28, 2000.

In consequence, Orion's results for the year ended December 31, 1998, reflect only corporate administrative expenses incurred following its formation in March 1998 and the operation of the Carr Street Generating Station from November 1998. Results for other periods include the operation of its facilities from the date of acquisition. From November 1998 until July 1999, Orion operated only the Carr Street Generating Station.

The expansion of Orion's operations in July and August 1999 and in April 2000 makes its historical financial statements less useful, either as a means of understanding its current financial situation or as an indicator of its future results, than might be the case with a more established company.

Orion's revenue was US$341.7 million for the six months ended June 30, 2000, compared to US$2.0 million for the six months ended June 30, 1999. The increase in the more recent period is a result of the ownership and operation of the Hydro Assets, the New York City Assets and the Midwest Assets, all of which were acquired after June 30, 1999. The six months ended June 30, 1999, reflect Carr Street as Orion's only owned and operating asset.

The revenue from each facility was determined at least in part in accordance with the various interim capacity and energy agreements then in place, including the provider of last resort contract for the Midwest Assets. The capacity sale agreement for the New York City Assets with Consolidated Edison expired in April 2000, at which time Orion began selling its capacity into the market.

Orion's revenue was US$134.1 million for the year ended December 31, 1999, compared to US$0.3 million for the period from March 10, 1998 (inception) through December 31, 1998. The increase in the more recent period is a result of the ownership and operation of the Hydro Assets and the New York City Assets, which were acquired after December 31, 1998, and the longer period of operation of the Carr Street facility in 1999.

According to the SEC filing, Orion reported a net income of US$5.7 million in 1999. But Orion has incurred substantial debt to finance its acquisitions. As of June 30, 2000, Orion had a total indebtedness of approximately US$2.3 billion, with approximately US$50.9 million available for future borrowings under its subsidiaries' various working capital facilities. In July 2000, Orion established a US$75 million revolving credit facility.

Team Orion

The management team has extensive experience in the power generation industry. I do like seeing that most of

(concludes on page 19)

Online Christmas 2000: End of an era?

by J.K. Riggin

Imagine running a store in which three out of every four customers abandon their shopping carts at some point between selecting a product and checking out. Your shelves would be a mess and your aisles would be cluttered with more shopping carts than shoppers. Such is the state of consumer e-commerce—a.k.a. e-tailing, a.k.a. B2C (business-to-consumer)—as we approach the third major holiday buying season in the age of the Internet.

According to Datamonitor, 78 percent of all online shopping carts are abandoned before checkout. How can this be? Growth itself can take its toll—increased traffic to an unprepared Web site can actually kick some shoppers off the system, effectively throwing them out of the store. Online shopping still is a first-time experience for many Web users, and confusion and fears about security can keep that mouse from clicking on the buy button. People get distracted—the home team scores a touchdown or the kids start fighting, and by the time the shopper gets back to the computer there's an email waiting from cousin Joe with a list of dirty knock-knock jokes. And then there's the legendary dearth of customer service—you'd have a better chance of getting a tee-time with Tiger Woods than receiving a timely response to product-related questions via email.

The bottom line: not even the Internet can change the fact that retailing is a margin game, and a competition-killing synergy of *profitable* supply, service and execution has yet to fully emerge online. Still, it's not all doom and gloom.

The good news is that legions of spendthrift consumers continue to march toward the Web as a rapidly growing alternative to shopping malls and mail-order catalogs. Everyone agrees that this year's online holiday sales should be up by more than 50% over last year. Forrester Research, Jupiter Communications, and Gartner Group all offer estimates of between US$10 billion and US$11.6 billion. Last year's sales were US$7 billion.

The downside is that the market for Internet-related stocks reserved its very worst spankings for B2C players across the board. For some, the car barely got out of the shed. In a record for dot-com demise that will hopefully not soon be challenged, the well-funded Kibu.com (business model: sell crap to teenage girls) went out of business just 46 days after its Web site launched. This despite more than US$22 million in funding and the guidance of Netscape co-founder Jim Clark.

Most distressing is the state of **Amazon.com (AMZN:NASDAQ),** the undisputed B2C leader. Its market cap cut in half, the company's cash flow is being suffocated by higher-than-anticipated debt payments. Several of its e-commerce partners have gone south: Living.com collapsed, Gear.com is teetering near the brink and Drugstore.com's stock price is barely 10% of its 52-week high. Making matters worse, over the past few months several top-line execs have left the mighty Amazon for greener pastures and better stock options. Amazon.com's wish list may be too long for Santa this year.

The word from the reigning "man of the year" remains pedal-to-the-metal expansion—sell more products in more markets. The game plan from Mount Bezos is to partner with anyone who will take them on and roll out more international Amazon.com Web presences (a French language Amazon launched last month). The market's response to date has been iffy, with much debate going toward how much of a bonus Amazon.com should be awarded for its 23 million customers and first-mover status.

But hypergrowth has a way of becoming less hyper over time. Amazon.com must fund its growth with profits, not promise, and will most likely need a strategic partner to achieve profitability before 2002. The playing field is becoming more level.

Traditional retailers are actually making progress with their clicks-and-mortar strategies, and this just may be the year that their online performance finally begins to catch up with in-store numbers. Wal-Mart, K-Mart, and other e-tailers are working intently to ensure that their Web sites are prepared for the holiday crush. Wal-Mart actually shut down its site for a few weeks to fine-tune things for the holiday shopping season. Christmas 2000 will be the debut of the new Wal-Mart.com team (the company last year spun off its Internet activities as a separate division), based in Menlo Park, CA and headed by the former CEO of Banana Republic and ex-head of Gap's Internet unit. Earlier this year, Wal-Mart.com acquired the technology assets of HomeWarehouse.com, an online home improvement store. Along with Wal-Mart, Bluelight, K-Mart and Estée Lauder's gloss.com have all temporarily closed their Web sites to make upgrades in preparation for increased fourth-quarter shopping activity.

Though going offline to re-engineer means lost business, it could end up paying big dividends. During the holiday shopping season of 1999, e-commerce Web sites and fulfillment centers were overwhelmed by the crush of Web shoppers. Of course, this is a good problem to have, but only if these same players bulk up to avoid similar problems this year. Most research estimates that about one third of this year's holiday shoppers will be first-time buyers, and that the average customer acquisition cost is now running approximately US$175. Depending on the purchase, it could take as many as three visits for some e-tailers to break even on a customer.

All of which points to the absolute necessity of a happy shopping experience. At this point, that means rapid and intuitive payment screens, email response within two hours, instant messaging access to customer service representatives, and working site search functions. Amazon.com has been relatively successful at most of these tasks, but with so many new users still coming online, traditional retailers will have a distinct advantage in reaching those consumers via multiple channels. Joe Six-pack won't be able to get in and out of a Wal-Mart or Target store this holiday season without being nailed by the company's Web address at least 27 times. And that's a lot cheaper and more effective than putting your firm's edgy sock puppet mascot on television six times a day. Execution will mark the difference in how far traditional retailers have come... as well as deciding how much share Amazon.com will lose.

If traditional retailers do take a bigger piece of the pie this Christmas, the big question will be whether the Internet sector is still a sector at all. If this is the year we learn that you don't have to be an Internet company to succeed on the Internet, then what will that do to Internet companies?

It's one thing to leverage your brand, inventory, footprint and distribution capability to deploy an online channel alongside your catalog- and store-based channels. But it's an entirely different matter to do on the Internet what can't be done in stores, or in print and broadcast media. Call it the halftime of the Internet revolution, and watch the elite Internet companies—those that have truly done something unique, and done it profitably—receive the highest bounce once the holiday shopping season is over and done with.

Who are the elite? My short list includes **America Online (AOL:NYSE)** for being the first online media/shopping entity to challenge the traditional media companies; **Yahoo! (YHOO:NASDAQ)** as the first broker of "creatorless" content and "merchantless" commerce; and **eBay (EBAY:NASDAQ),** the first purely Internet-enabled business model to achieve profitability. All three are profitable and all three stand to gain from the weeding out of Internet startups and the entry of traditional companies with strap-on Internet strategies.

Though still pricey, eBay's stock is down at the moment, despite a strong record of execution. Many eBay watchers are still holding their breath as the company enters three new markets (Germany, U.K. and France). Through it all, however, eBay has consistently managed to deliver 30+% operating margins. With a 50% jump in online holiday revenues and no significant threat from the traditional retail or media world, watch eBay flourish as the bottom line swells and the auctions continue to rip.

One of the mysteries of online media is that so many people complain about banner advertising being costly and ineffective, yet expenditures for online advertising campaigns keep increasing. The truth is that inventory for banner advertising across the Web continues to outpace the number of eyeballs—with the exception of two mega-destinations that somehow continue to attract more and more eyeballs. Yahoo! and AOL dominate the online ratings, consistently running neck and neck in unique visitors, page views, session length, at-home and at-work usage, and just about every other category. Both properties remain the prime players in online advertising, and swollen holiday traffic will more than offset the highly publicized demise of so many dot-com pretenders (and their marketing budgets). Despite the tools that traditional retailers have at their disposal to promote their Web site offerings (in-store signage and merchandising, receipts, uniforms, existing print and circular advertising, etc.), they will still need to attract the eyeballs that are already online. And the most efficient way to do that is through AOL and Yahoo!. Again, the rash of failed dot-coms means marginally less competition, which should result in a bigger piece of the content and commerce pies for both of them—potentially even bigger than the projected 50% bounce through the holidays.

Despite all the hoopla last year about the year 2000, we all know that the new millennium really begins in 2001. There won't be a lot of fanfare, given the hype from last year. But Internet retailing and media will mark a more legitimate entry into the mainstream with this holiday season. After all of the noise made by trendy new dot-com names that popped up last year, the majority of "online" businesses that we will hear about this year will follow corporate brands that are familiar to us. We will spend more money with these companies, receive better service, and, for the most part, not think twice about it. How quickly the revolutionary becomes ordinary.

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Foil the clever pols by starting your tax planning early

by Charles R. Wolpoff

Ever notice that tax-filing season is about as far away from Election Day as possible? Lord knows how Oliver Stone missed this one.

Think about it. If you're an incumbent politician, the last thing you want is a large group of voters coming to the polls right after mailing their tax returns. After all, it's at that very moment that taxpayers/voters are most steamed about the stranglehold government has on their wealth.

No, if you're one of those entrenched, corrupt, power-hungry fat cats, you want tax season about as far away from decision time as possible. If Election Day were New York, you'd want tax season to be Australia. That just about describes the current situation. April 15 is about six and a half months before you vote, and five and a half months after. Election Day and tax day are on opposite sides of the calendar. Coincidence?

But there is a flaw in this otherwise utopian setup for politicians. You see, April 15 is not the only time taxpayers should be thinking of taxes. The shadow that politicians cannot avoid, and that looms over Election Day despite their best efforts, is… the prospect of year-end tax planning.

Cut loose from the "December fallacy"

Trouble is, taxpayers make two mistakes when it comes to year-end planning. And these mistakes actually serve to further protect the government from accountability.

First, taxpayers either do insufficient year-end planning, or don't do it at all.

Which takes us to mistake number two: Even when they do engage in year-end tax planning, taxpayers wait too darn long to start.

If taxpayers truly wish to protect their wealth, taxes should be at the forefront of their minds on Election Day. By December, it may be too late to take the steps necessary to reduce your taxes.

Fact is, you should be carefully reviewing your tax situation right about now, in order to buy enough time to make any necessary adjustments. And if it just so happens that this planning makes you boiling mad by the time you walk into the voting booth, so much the better. Here's a guide to get you started.

Seven wealth-preserving steps to take BEFORE Thanksgiving

1. Pay on time, or pay through the nose. If you're a wage slave, make sure enough money will have been withheld by the end of the year. If you're self-employed, stay current with your estimated tax payments. Draconian penalties apply if you haven't paid enough by the end of the year (or January 16—the 15th is a federal holiday—if you pay estimated payments).

Adjust your W-4 and increase withholdings for the last few pay periods of the year. But make sure you act now. It could take a couple of weeks for withholding changes to kick in. So you want to have at least the two pay periods in December (assuming you're paid biweekly) to alter the amounts.

This type of end-of-year adjustment is not as easy if you pay only estimated payments and no withholdings. With quarterly estimated payments you pay as you earn. If you earned money in the first quarter of the year, but don't pay taxes on that amount until a later quarter, you may very well owe a penalty—even if you've paid all you need to through the fourth quarter.

Two cautions, though, if you're thinking of taking the reduction route. First, you may not want to reduce state tax withholding, since if you itemize you can generally deduct your state tax payments on your federal return. Second, be very careful with your calculations. You don't want to end up getting it wrong and withholding too little.

Now, how do you figure whether your withholding is too much, too little, or Goldilocks perfect?

First, take a look at your latest paycheck. Extrapolate the withholdings to the end of the year. Then figure out the "safe harbor" you wish to use.

You are subject to a penalty if you underpay your taxes. But the penalty will not apply if you pay enough to meet one of the following safe harbor tests.

The first is the "100%-of-prior-year's-tax-liability" test. If you pay the full amount of last year's tax liability by December 31 (or January 15 if you pay estimated taxes), you're safe.

This safe harbor has the virtue of certainty and simplicity. To figure out the amount, just look at line 56 of your 1999 Form 1040. That's the minimum you need to pay by the end of this year.

But politicians don't want to make this too easy for you. If you make "too much" money, the safe harbor is higher than 100%. For instance, if your 1999 adjusted gross income (line 33 of your return) was more than US$150,000, then your safe harbor amount is equal to 106% of your 1999 tax. That's right. You have to pay in more than you paid last year.

If you received a raise in 2000, earned substantially more dividends and interest than last year, or sold a lot of stocks for a gain, this safe harbor is very useful. Your income can be much higher than it was last year, but

you'll still be able to delay paying a hefty portion of your taxes until next year.

Let's look at an example. Suppose you made US$37,000 last year and your tax liability was US$4,400. In June, you got a new job paying you twice as much. You expect a tax liability next year of, say, US$6,000.

You only have to pay US$4,400 in withholding for 1999. You can pay the remaining US$1,600 on April 15.

That's a pretty big check to write, you say? Not considering the fact that it's you earning interest on that money in the meantime, instead of the IRS.

But what if your income this year has gone down considerably from last year? Let's say in 1999 you had a lot more capital gains than you anticipate from this year's generally depressing stock market (unless you've been taking *Taipan's* advice). Or maybe you got fired in August and found a lower-paying job in October.

In that case, you may want to look at the second safe harbor: paying at least 90% of this year's tax liability.

The problem with this one is that it provides less certainty than safe harbor number one. But that shouldn't be an insurmountable problem. Sit down with your 1999 tax return and estimate how each item will change, if at all, for year 2000. Then estimate your tax liability and multiply by 90%.

Oh, by the way, to figure this out you need the year 2000 tax rates. After all, the tax rates change every year. For current rates, obtain Rev. Roc. 99-42, 1999-46 I.R.B. 568, at www.irs.gov.

Once you have these rates, you can figure what you have to pay in by the end of the year.

There's a third safe harbor that can get you out of hot water if you miscalculate. Pay in just enough so your unpaid tax will be less than US$1,000 come April 15.

This safe harbor can be very useful if you're careful with your estimates. Suppose you had a tax liability of US$4,500 in 1999. You expect the same liability for 2000. The 100% safe harbor means you're paying in exactly that amount. The 90% loophole puts you at US$4,050. But the US$1,000 safe harbor would let you pay in only US$3,500—just 78% of last year's—and this year's—liabilities!

Two warnings, though. First, to qualify for this safe harbor, you can only count withholdings, not estimated taxes.

Second, if you miscalculate and your unpaid tax is just a little over US$1,000, you'll owe a penalty. And the penalty will be on the full amount you underpaid, not just the amount in excess of US$1,000.

Enough about withholdings. Here are some other end-of-year strategies:

2. Cut the amount of investment gains you ship off to the politicians. Too many investors simply ignore their tax situation until it's too late to do anything about it. Of course, you shouldn't let taxes override all considerations. But you should pay close attention to your after-tax investment results.

Consider tax implications with every move you make. If you haven't up to this point, don't worry about it. Just start now. In any event, sit down and determine the tax results of any 2000 investment sales.

To accomplish this, start by determining the basis of the investments that you sold. This sounds absurdly simple. But there are at least two potential complications.

First, after a huge market correction, some investors may assume that a stock or fund they're selling way off of its recent high is not priced much higher than it was when they first bought it months (or even years) before. In other words, recent market volatility may lead you to underestimate your taxable gains. Keep your eye on the ball—that is, the original cost of the stock.

Second, if you sold something you bought a long time ago, you may have a hard time tracking down the cost basis. This is why it's important to keep good records, and to hold on to the documentation you receive whenever you buy a stock.

If you own mutual funds, contact the fund administrator to get an estimate of the distributions. This year, many mutual funds are expecting to pass on larger-than-usual tax bills to their shareholders.

Once you have determined your taxable gains, decide whether you should offset those gains with any losses. If you own stocks that are down from their cost basis, consider selling them before year's end to offset gains. Also remember that you can deduct losses up to US$3,000 in excess of gains.

Keep in mind that you can choose which shares to sell. If you're selling off a portion of your holdings in a stock or fund, you will generally want to sell the stock with the highest basis, to give yourself a tax loss or a lower tax gain this year. This move defers taxes to future years (when you will presumably sell the lower based shares). Because of the time value of money, taxes deferred mean cash in your pocket.

What if you have a loss in a stock, but want to hold onto it for investment reasons? Well, the wash sale rules pose a problem. Under these rules, you can't take a loss on any stock that you sell and buy back within thirty days, or that you bought less than thirty days before the sale date. However, there are ways around this. You can sell the stock and have your retirement plan pick it up. Or you can buy a similar stock—one in the same industry, for example.

3. Maximize your tax-deferred retirement plans. One of the few tax shelters politicians have provided to the ordinary taxpayer is the tax-deferred retirement plan. If you have a 401(k) plan at work, or are eligible to make IRA contributions, use these options to the utmost. If your cash flow allows it, dump your money into these things until the rules say stop.

(over, please)

The beauty of these plans is that you're not taxed on any interest or gains your money is making for you while it's inside the plan. You're only taxed on it when the money is distributed to you, presumably after you've retired. Plus, contributions to a 401(k) plan and a traditional IRA aren't included in your taxable adjusted gross income. Contributions to a Roth IRA are not excluded from income, but you're not taxed on amounts eventually distributed to you from the plan.

Unfortunately, you can contribute no more than US$2,000 a year to an IRA. There are also limitations on the percentage of your salary that you can contribute to a 401(k) plan.

For your IRA, you have until April 15 to make the contribution, but there's no reason to wait until then. The longer your funds are in these accounts, the more benefit you get from the tax deferral.

4. You're not a Scrooge just because you carefully plan your charitable contributions.

> *"There are two classes of charitable people; one, the people who did a little and make a great deal of noise; the other, the people who did a great deal and make no noise at all."*
>
> – *Charles Dickens,* Bleak House

It seems too many people like to go public with their wonderful charitable predilections. And they like to twist the arms of others to donate to particular organizations.

That's not the way it should work. Charity should be a personal undertaking. Your decisions should be made in the quiet of your own home.

So the only proper answer to people who solicit donations from you is: Send me something in writing. Cold-hearted? Not really. How much you contribute is your decision. And you should make those decisions free from pressure, free from societal coaxing and free from guilt.

Heck, if nothing else, careful charity planning will protect you from con men who try to use guilt to trick you out of your money.

Your charitable contributions are nobody's business. Uh… nobody, that is, except the IRS.

It just so happens that if you itemize them on your return, you can deduct these contributions. Even if you are making them for reasons that have nothing to do with taxes, you should determine your total contributions early enough so that you can use them in your tax calculations.

If you're going to make charitable contributions, consider donating appreciated stock. If you do, you won't pay taxes on the gains, but you still get to deduct the full fair market value of the stock. That's a good deal in anybody's book.

You can contribute other items as well, such as your car. But be aware that the IRS is cracking down on people who donate cars that are essentially worthless, but take sizable deductions anyway. You can only deduct the fair market value of whatever property you donate.

Make sure any charity you deal with is reputable and tax-exempt. That's the only way you'll be entitled to a deduction.

5. Choose the right year for those deductions. Generally speaking, a deduction today is worth more than a deduction next year. So, for example, you may wish to make an early mortgage payment or two before the end of the year to get the extra interest deduction.

In addition, there are certain "floors" that prevent you from taking deductions. You can beat these floors by "bunching" as many deductions as you can into one year. If this situation applies to you, you may actually benefit from deferring some deductions.

For example, you can generally deduct medical expenses only for amounts in excess of 7 1/2 % of your adjusted gross income. If you're expecting major medical expenses next year—perhaps because of a planned operation—put off other medical costs until the same year (but only if it won't adversely affect your health, of course).

Similarly, so-called miscellaneous expenses are deductible only to the extent they exceed 2% of your adjusted gross income. These include investment-related expenses (such as relevant periodical subscriptions), tax preparation costs, professional and business dues, job search fees, certain education costs, etc.

6. Reread the *State Tax Report*. This is admittedly an unconscionable plug for our groundbreaking book, which ranks the various states by tax burden (you can order it by calling toll-free, 800-433-1528). Still…

The point is, don't forget state taxes at this time of year. Review your local tax rules to make sure you're taking full advantage of any tax breaks peculiar to your state.

In addition, if you itemize deductions, and thus can deduct state income taxes, you may want to pay more state taxes this year—even if you've paid enough to meet your state's safe harbor rules. As discussed above, it's generally better to get the deduction this year than next. So figure out how much state income tax you're going to owe and consider paying the difference before the end of the year.

7. Give away your money! To the uninitiated, that may sound like strange advice from a wealth protection specialist. But if you have more than enough income for yourself, it may be a good idea to make annual gifts to your children prior to year's end.

You're entitled to make a gift to anyone of US$10,000 each year, with no estate or gift tax implications. This is a great way to transfer wealth to the next generation and minimize estate taxes.

If it's your parents that have all the money, try to get them to make these gifts.

True, giving away your money is not usually a great planning idea. But it's far better to give to your children than to the government. Although those professional politicians may feel differently…

TECHNICAL ANALYSIS

(continued from page 10)

methods (primarily Martin Pring's *Technical Analysis Explained*) and Eastern reversal indicators (Steve Nison's ground-breaking *Japanese Candlestick Charting Techniques*).

It's enabled me to call every major turnaround of the past few years in my own newsletter, *Penny Stock Fortunes*—including 1999's mid-summer head-and-shoulders top and this year's March top and May bottom—well in advance of the actual turnaround points.

For this column, I'll be using 52-week candlestick charts of the NASDAQ 100 (NDX) Index, which tracks the top 100 companies on the NASDAQ by capitalization. This includes such well-known tech giants as Intel, Microsoft and Cisco, as well as critical financial, industrial and pharmaceutical players. I find the NDX chart to be the best guide to the market's leading edge.

It may not be an iron-clad guarantee that any particular stock you own will go up or down on any given day. But it will offer you powerful insights into which way the wind is going to blow over the next four weeks. I trust you'll figure out how to trim your sails accordingly.

IPOs

(continued from page 13)

the members of the team have worked together for a while. Notice that Goldman Sachs affiliates own more than 54% of the company, and a subsidiary of Baltimore utility Constellation Energy owns 31%.

Orion's operations vary depending upon seasonal and regional weather conditions, although the effect of the seasons can vary depending upon the geographic location of the different facilities. In many areas, the demand for electric power peaks during the hot summer months, with energy and capacity prices correspondingly highest at that time. Orion earns a substantial amount of its net income from a few days during the peak demand for electric power on the hottest days of summer.

Look at a few of Orion's competitors, such as Allegheny Energy (AYE:NYSE), Enron (ENE:NYSE) and PG&E (PCG:NYSE). These companies have all been on an uptrend in the past year.

There's one thing that's a little disturbing. Current stockholders are selling over three million shares and Orion will not recognize any of the proceeds. But this may not be a big deal, since inside shareholders own a large piece of Orion.

I do like seeing that Orion Power Holdings, Inc. has a strong list of underwriters, including Goldman, Sachs & Co., Credit Suisse First Boston, Deutsche Banc Alex. Brown, Merrill Lynch & Co. and Morgan Stanley Dean Witter. Orion plans to trade on the NYSE under the ticker symbol ORN.

For more information contact **Orion Power holdings, Inc., 7 East Redwood Street, 10th Floor, Baltimore, MD 21202, phone 410-230-3500, fax 410-234-0994**

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Company	Exchange/Symbol	Status	Action
Capstone (SHORT)	CPST:NASDAQ	hold	cover at US$60
Human Pheremones	EROX:NASDAQ	closed	sold
SunMicroSystems	SUNW:NASDAQ	open	hold
Safeguard Scientific	SFE:NASDAQ	open	buy (oversold)
Internet Capital Group	ICGE:NASDAQ	open	buy (oversold)
Cell Robotics	CRII:NASDAQ	open	buy under US$5
Talk.com	TALK:NASDAQ	open	hold
Clearworks.net	CLW:AMEX	open	buy
VerticalNet	VERT:NASDAQ	open	buy
Valance Technology	VLNC:NASDAQ	open	hold
American Quantum	AFV:AMEX	open	hold (pending merger)
Media 100	MDEA:NASDAQ	open	hold
Baltimore Technology	BALT:NASDAQ	open	buy under US$16
Barnes and Noble	BNBN:NASDAQ	open	hold
"Red Hat, Inc"	RHAT:NASDAQ	open	hold
Interwoven	IWOV:NASDAQ	open	sell over US$100
Akami Technologies	AKAM:NASDAQ	open	hold
FreeMarkets	FMKT:NASDAQ	open	hold
Sangamo Biosciences	SGMO:NASDAQ	open	buy under US$11.50
Silicon Laboratory	SLAB:NASDAQ	open	hold
Web Methods	WEBM:NASDAQ	open	hold
New Focus	NUFO:NASDAQ	open	hold
Resonate, Inc.	RSNT:NASDAQ	open	hold
Illumina	ILMN:NASDAQ	open	hold
AVI Biopharma	AVII:NASDAQ	open	hold
Aviron	AVIR:NASDAQ	open	strong buy under US$20
Closure Medical	CLSR:NASDAQ	open	buy
Micros Systems	MCRS:NASDAQ	open	strong buy
Modtech	MODT:NASDAQ	open	buy
MedImmune	MEDI:NASDAQ	open	buy under US$50
Pharamaceutical Product Dev.	PPDI:NASDAQ	open	buy
Visx	VISX:NASDAQ	open	sell
Millennium Pharmaceuticals	MLNM:NASDAQ	open	hold
CheckFree Holdings	CKFR:NASDAQ	open	hold
Univision	UVN:NYSE	open	buy
Optimal Robotics	OPMR:NASDAQ	open	hold
Ballistic Recovery System	BRSI:OTC BB	open	buy
Sensormatic Electronics	SRM:NYSE	open	hold
Agritope	AGTO:NASDAQ	open	buy
Bionova	BVA:AMEX	open	buy
Aramex	ARMX:NASDAQ	open	buy
Uproar	UPRO:EASDAQ	open	hold
Restaurant Brands	RBD:NZSE	open	buy
Fischer & Paykel	FAP:NZSE	open	buy
Unicharm	8113:TOKYO	open	buy
Elron	ELRNF:NYSE	open	buy
Elbit Ltd.	ELBTF:NASDAQ	open	buy
Orckit	ORCT:NASDAQ	open	buy
Hurricane Hydrocarbons	HHLF	open	hold
Hurricane Warrants	HUHY	open	hold
Ashanti Goldfields	ASL	open	buy
Surgutneftegaz ADR	SGTZY	open	buy
Suez Cement	SZCD	open	buy
Sasol	SASOY	open	buy
Monsenergo ADR	AOMOY	open	hold
TyumenAviaTrans	TVAVY	open	buy
Ventspils Nafta	VNFT	open	buy
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Xoma	XOMA	open	hold
Avant Immunotherapeutics	AVAN	open	buy
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Computer Learning Centers	CLCX	open	buy
Geoworks	GWRX:NASDAQ	open	buy
Fastcomm Communications	FSCX:OTC BB	open	hold
Pliant Systems	PLNS:OTC BB	open	buy under US$10
Illinois Superconductor	ISCO:OTC BB	open	buy under US$5
Barpoint.com	BPNT:NASDAQ	open	buy under US$9
Precision Optics	POCI:NASDAQ	open	buy under US$20
APA Optics	APAT:NASDAQ	open	buy
Interwave Communications	IWAV:NASDAQ	open	buy under US$15
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Comtech Telecom	CMTL:NASDAQ	open	buy under US$15
MRV Communications	MRVC:NASDAQ	open	buy inder US$60

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