TAIPAN

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Waiting for the other shoe to drop

The hangover may not be over yet… but bargains abound on the markets already!

by J. Christoph Amberger

"Are you better off than you were two years ago?" a garrulous Al Gore recently asked of an obedient audience attending a Democratic "Where Are They Now" event. The response, as planned, was synchronous head wagging and the mouthing of a collective "no!"

It made me think.

"Better off" implies a comparative process, whose result depends on evaluating two states of being. But to evaluate properly and reasonably, you have to be able to apply the same criteria. If you aren't able to do that, your results are questionable at best.

For example, you could make a valid claim that each and every German back in 1923 was a multimillionaire. Of course, that was during the *Inflationszeit*, and a billion Reichsmark was just enough to buy a stale loaf of bread at the local baker's, who in turn "stretched" the flour used to make it by adding sawdust. Today, few Germans are millionaires when you compare their numbers to those of 1923. (Especially now that the former Deutschmark-millionaire requires twice as many Euros to keep his status…)

The last bout of "hyperinflation" we experienced here in the States might not have affected the buying power of the currency or the cost of living. But it created an illusion of wealth by over-inflating the paper valuations of companies and the equity stakes they issued. In this regard, the goateed Internet millionaire whose million-dollar mortgage and car loan for his Ferrari were secured by his overvalued stock options was much like the Hausfrau of the early Weimar Republic who carted billions of Reichsmarks to the grocery store in a wheelbarrow.

Beanie Baby counter

Or take that other terminal affliction of the late 20th century… collectible toys. Contemporary with Pets.com, smallish stuffed animals and trading cards developed value trajectories that can only be compared to the launching phase of intercontinental missiles. Three trademarks stand out in my memory: Beanie Babies, Pokémon, and Tickle-Me-Elmo. Their real values fluctuated between those of a roll of dental floss and the promotional matchbook of a dancing school for Mormon singles. After all, they were nothing but stuffing, miniature glass eyes, cloth, or stiff paper.

And yet, people were willing to pay through the nose. Beanie Babies retailed for between five and ten dollars. Some wily storeown-

(over, please...)

TAIPAN

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ers in resort towns managed to sell them for fifteen. And at the height of the frenzy, there were collectors who would pay several hundred dollars for special "retired" models… each of which cost about 50 cents to make.

The "values" for Pokémon cards made Mary Meeker look like Little Orphan Annie. The Holographic Charizard… a simple, uninspired card with some holographic foil… at times switched hands for fifty dollars or more. Not bad at all for a card whose production cost and inherent value was less than a penny.

Adding up the year 2000 "valuations" of the toys that are scattered like the dead of the Battle of Austerlitz throughout my children's rooms, I could have sighed contentedly and folded my hands above my stomach: Harvard, here we come!

Unfortunately, the Beanie Baby math of 2000 that determined empirically that I was way ahead of the game had just about the same shelf life as Clinton Era prosperity.

Matters of perspective

To arrive at an objective comparison of "how well off" we are today compared to the year 2000, wouldn't you have to adjust the perceived (and politically more marketable) reality of that year by taking into consideration what we know today?

If companies were able to leverage each other to the hilt based on crooked Enron-style deals, suspicious AOL-style double-booking of revenues, and balance sheets whose "gains" reflected mostly stock appreciation, which in turn depended on media manipulators… shouldn't there be something like a restatement of stock market gains and GDP for the late 90s to allow us to compare apples to apples and Milk Duds to Milk Duds?

In other words: were we really "better off" in 2000 when the price for the Holographic Charizard represented a full day of work for a minimum-wage laborer… or did we mainly feel better because we were blissfully ignorant of the fact that most of the perceived wealth of that era consisted of smoke and mirrors, fluff, and holographic foil?

Shouldn't Al Gore's question have been: Are you smarter today than you were two years ago? There, the only appropriate reply would have been: You betcha!

But of course, nobody trying to muscle back into public office would like to ask that question.

Safety in size

The hubris that shaped the attitudes of the year 2000—and still appears to tinge the rosy nostalgia of liberal entertainers and politicians—was not quite unreasonable at its core. After all, the Western world had just stared down the biggest bugbear of a half-decade… the Y2K debacle that wasn't. When the lights didn't go out on New Year's Eve, wishful thinking became common knowledge. The system was simply too big to fail.

Of course, the cautionary lesson of the 20th century was that nothing is too big or stable or important to fail. This lesson should have been learned when the Titanic sank, the Soviet Union imploded, and Kevin Costner's "Waterworld" was pulled down into box office pond scum by its own overblown sense of importance.

You may be able to delay terminal failure. But there is an immutable law of nature that you can't do so interminably.

This appears to be the realization of Heizo Takenaka, Japan's new economics minister, who seems determined to put his country's "too big to fail" banks out of their decade-long misery.

Japanese banks are presiding over untold billions in bad loans. And yet, under the Japanese brand of capitalism, they thus far have been allowed to "save face." Bankruptcies and serious restructuring that would have cleansed the industry… and indirectly the Japanese economy… have been delayed for ten years now for fear of the short-term political and economic repercussions.

But these corporate patch-up jobs have created their own nightmares. Japanese banks now also hold grandiose positions in corporate equity. Each drop in the markets—the most recent triggered by fears of Takenaka's terminal accountability—translates into yet another dent in their capital. In the first couple of trading days in October, latent losses on shares held by the 12 largest commercial banks in Japan jumped by a stomach-churning 46% to US$41 billion, according to the Daiwa Institute of Research.

With the Nikkei 225 below 8,500, the capital-to-asset ratios of these banks are around 9%. That's a smidgen above the minimum 8% required for banks to operate internationally. A drop of the Nikkei below 8,000—a mere 440 points below today's close—and some banks may indeed find themselves behind the eight ball very, very soon.

(After all, what's another 440 points con-

sidering the Nikkei has already lost four times that in less than two months?)

Paying the piper

U.S. banks are coming to grips with their own hangovers caused by the binge of leveraging cable, telecom and Internet companies to the hilt while the going was good.

They now find themselves saddled with the assessment that 13% of all outstanding loans are either in default or unlikely to be repaid. Risky loans, according to a survey by the Fed, rose to US$236.1 billion in the year ended June 30… up from US$192.8 a year before.

This means we probably haven't seen the end of the Big Bubble Hangover yet. Japan may still have a few thousand points to shave off the index before there are lasting improvements. And the Dow? Read Adam Lass's updated outlook on Page 3 of this issue.

But there are early indications that there may be an end to the dry spell in the markets. In early October, Thomson Financial indicated that U.S. insider selling in September fell to its lowest monthly level in eight years, dropping 55% from US$1.5 billion in August to US$671 million in September. That's the lowest volume since December 1994.

Executive purchases totaled US$130 million in September, about half August's level.

What is that telling us? We have three ways of looking at these numbers: One, corporate executives are still so comfortably off that selling their positions at these prices won't make a difference. Two, they have stopped paying attention to their monthly portfolio statements (like the rest of America). Or, three, they're expecting a rebound.

Insider buying has picked up on Lucent, Microsoft, Intel, Motorola, Campbell Soup, B/E Aerospace, Chesapeake Energy, and MetLife Inc.

And there's another thing. Stocks are getting dirt cheap. You can buy Ford for seven bucks and change, the most innovative chip manufacturer for five dollars and change, and the patent holder of a revolutionary self-contained heart pump will cost you half the price of a Beanie Baby.

We will be using every dip as a buying opportunity. If you are waiting for 1,000 on the NASDAQ or 6,800 on the Dow, there's a good chance you will see these levels. But don't expect the market to stay there very long. By the time you realize the market is turning, it will be too late. Start adding to your positions on down days over the next two months. If you are lucky, you will be able to time the bottom exactly. If not, you will be within 10% of the lows.

Three months from now, your entry point won't matter as long as you are long.

The *Taipan* Forecast Issue 2003 will be made available starting December 20, 2002, in a special section of the *Taipan* homepage at www.taipanonline.com. Please take note that we're changing passwords as of November 1. (See Page 2 for the new one.) We will alert our loyal subscribers by email whenever we post a new segment of the Forecast Issue online.

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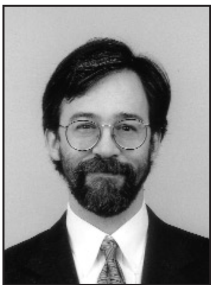
Fear of flying

It's not a question of what forces are pushing the market down, but rather—what is holding it up?



by Adam T. Lass

Well, that's one for the history books. By now, I'm sure you're aware that we just finished "the worst quarter since 1987." It started out lousy enough, and capped itself off with a five-week run for the cellar, peeling more than 23% off both the Dow and the S&P.

And before you buy the idea being pitched inside the Beltway that there is a disconnect between the recovering economy and the failing stock market, check out what happened to a few of the feeble supports of said economy:

- **Crutch #1:** Manufacturing foundered in September for the first time since last January, with the Institute for Supply Management reporting its index of business conditions slipping into contraction territory. ISM's barometer of future activity is also down about 15 points from its March peak.
- **Crutch #2:** Ultra-cheap loans may be encouraging folks to buy bigger houses and fancier cars in record numbers, but the less glamorous yet far more indicative number, nonresidential construction (that's offices, factories and stores—you know, places for those same folks to make the money to pay the inflated price tickets for those cars and houses), fell to a six year low.

Breadline time?

Neither indicator bodes well for future employment figures. Now add in a potentially disastrous Thanksgiving retail sales kickoff due to inadequately stocked shelves after the West Coast port lockout—a

special little gift from our virulently anti-labor President—plus said President's maddened headlong dash into an ill-advised and potentially disastrous personal war with Iraq, and you are looking at one of the most stock-market-negative pictures I've seen in the past quarter century.

It's no mystery what's driving the market down. What intrigues me is what is preventing a total Depression-style collapse. This is starting to look like one of those horror movies when the bad guy with the hockey mask and meat cleaver gets shot, set on fire and run over by a bus… and still pops up growling for more in the third reel.

Our überpublisher, Bill Bonner, always taught us to look for the fear and greed. In this case, I think that greed has been totally pounded out of the market. It is now running entirely on fear.

Fear of missing the bottom

Some of the major players moving the market are, of course, mutual funds. They have suffered through a well-deserved exodus of clients over the past few years. I say well deserved, because these losses are their just deserts for beguiling every housewife, granny and school kid they could call on the phone at dinnertime with tales of permanent 30% annual returns.

Let's put their pain in perspective: earlier this year, stock funds were holding roughly US$3.3 trillion in assets, about US$165 billion of which was cash. Redemptions over the past few months have been in the neighborhood of US$71 billion, almost half of the funds' reserves (special thanks to Brit Ryle for letting me crib those stats off his desk).

They lose any more customers and they will have to start covering redemptions by selling stock in quantities virtually guaranteed to create a massive downward spiral. The sole enticement they have to keep their remaining clients on board is the V-shaped bottom.

A dangerous opportunity

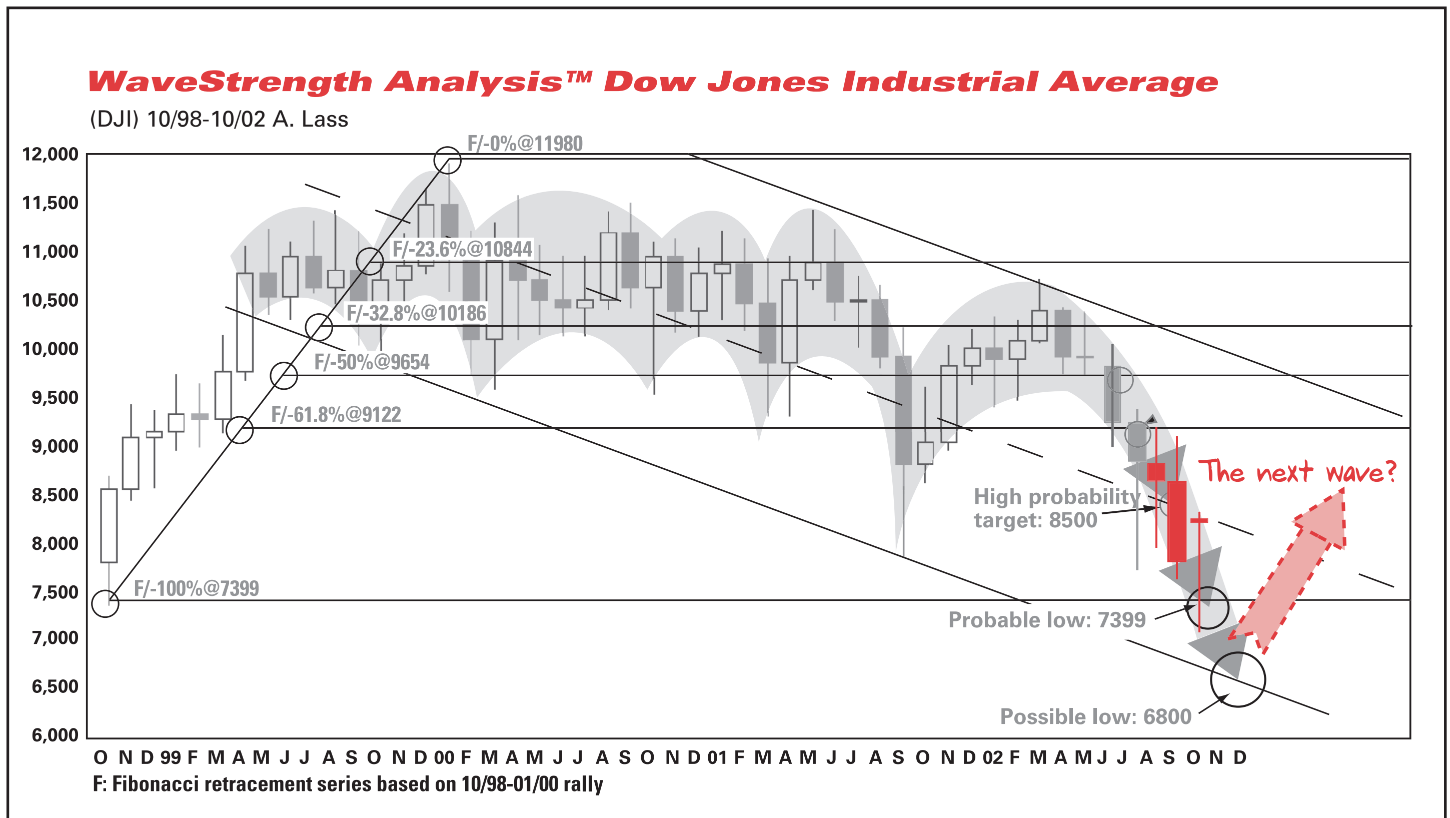
Think about it: the two most explosive moments in the life of the market are the run-up just before a bubble pops… and the short burst as an oversold market returns to a normal rate of climb. In between is usually a decade-long single-digit-per-year rise.

If the funds miss this next phase, they will have little excitement to offer for years to come. But if this is not the bottom, they dare not incur any further sizable losses. Even horror icons run out of sequels eventually.

So the fund managers are dancing like epileptics on speed—in one moment, out the next. I swear, sometimes it looks like they are so indecisive, they are taking both sides of the same transaction. And that's exactly what I recommend we do.

Chart Story

I have written for the past several months that the move to this level was a lock. Now that we are very



close to the major support node at the 100% retracement of the culminating rally of the 1990s, this sort of dancing is exactly what one should expect. Here are the most likely outcomes over the next 30 days:

1. A rally to top of the falling trend at Dow 8,300 is now quite probable, and would not mean a thing in the long run.
2. It is still highly probable that that rally will fail, and the Dow will drop back to well below 8,000.
3. It is not yet highly probable but distinctly possible that the next few months could see the construction of the rising leg of a new long-term wave. This still would not mean the end of the bear market, but could easily allow the Dow to rise as high as 9,500 via a series of rapid oscillations before leveling off at the 50% marker in the overall falling trend.

The trick is, how does one play the odds when the probability of a sizable upward move begins to approach the same level as that of a devastating plunge?

It can't be done with just stocks—where you are either in (a relatively risky proposition in the face of such trouble), or out (risking missing the pop-up that could repair the last six months of portfolio damage), or short (which risks losing your house and savings if said rally ensues). But it can be done with options, which offer a wider array of choices. For that, I will turn you over to my partner in crime, Bryan Bottarelli.

PROFIT ALERT

For a mere US$300, here's your way ride a further Dow slide, while at the same time profiting off a sudden pop

by Bryan Bottarelli

If you've been around Adam and me for a while, you know that we love playing the probabilities. And you also know that at the same time, we love being "protected" against a sudden and outside probability that the high-odds move we're targeting doesn't materialize.

In our *X-Wave* trading service, we call those who choose to adopt this type of protective trading strategy the "Profiteers." They are after safe and consistent gains, and for the most part, they're hitting an average 25% profit on each trade.

As you probably know, our past six Dow put recommendations have a little better than 25% gains. Collectively, we've averaged 142% every 70 trading days shorting the Dow with puts since last December. Since we're still holding half of our remaining Dow 88 June 2003 Puts (DJX RJ) for more selling pressure, I'd like to adopt the "Profiteer" trading strategy in this Dow position.

Why adopt this strategy right now? The reason is threefold:

First, Adam is telling me more and more lately that he likes the upside profit potential at these levels on the Dow. I "decode" that as Adam saying, "Bryan, we could see some HUGE up moves in the future. And I don't want to be caught with my pants down if we do." Point noted.

Second, you've just gotten through taking profits on six Dow option trades with over 100% gains on each. Not protecting those gains is foolish. At this point, it's like driving that new Mini-Hummer under the same car insurance package you had on your wife's 84 Ford Taurus. It's time to take some of your profits and buy some new, upgraded position insurance.

Third, nobody will know when the (buzzword warning) "recovery" happens until three to six months AFTER it actually starts! So today's recommendation, together with your downside Dow puts, will help you nail a recovery, should we see one anytime soon.

Here's your Action Alert:

Together with your Dow 88 June 2003 Puts (DJX RJ), which remain strong "buys" between US$8.50 and US$11.00 per contract, I also want you to buy the Dow December 2003 92 Call (ZDK LN) under US$3.00 per contract.

The strategy goes like this…

The puts are STILL the main play here. Adam and I still see no reason why the slow grinding down of the Dow should stop anytime in the near future. Continue profiting off this grind using the puts.

But also keep some cheaper upside calls stashed away in your bag. These calls could act as cheap lottery tickets should you come to the conclusion in six months that the bottom came and went and you didn't even notice it.

If they lose money, who cares? Your profits on the puts will more than make up for any losses on the calls. Play the two-sided market and be covered on both sides… while still maintaining a downside bias.

Look for future position management updates in our daily 247profits e-Dispatch. Until then.

How to cash in on the trade deficit

by Siu-Yee Ng

We've become a society that loves to import goods and services. It's cheaper and the quality is good. According to the Commerce Department, imports have not slowed. Historically, after the U.S. recovers from a recession, the trade deficit decreases.

Think about it. Typically, consumers spend less in a recession, so imports decrease. But in our last recession, consumer spending was the main factor that kept the U.S. economy going. Consumers have yet to sacrifice their love for imported items.

Despite the volatility in the global economy, one factor remains steady: the importing and exporting business is a key element in keeping global and political peace. You may wonder what trade has to do with global peace. It's quite simple.

Take China, for example. China has ousted Japan from the number-one spot for exporting to the United States. Now, do you think China would jeopardize its economic relations with the U.S.? I think not. Economic ties eventually lead to a mutual political alliance.

Global solution

But with the threat of a prolonged lockout in the U.S. West Coast ports, a global crisis is at hand. Cargo is stuck on the docks and some may even be undeliverable—such as rotten meat and fruit. Not to mention the cargo that is stuck in other ports worldwide.

If this lockout continues, we could see a catastrophic holiday shopping season. Retailers cannot sell empty shelves. This is a zero-sum game. As I write this, President Bush is expected to ask a San Francisco court to end the lockout for 80 days. This will at least get us through the holiday shopping season. By then, hopefully, the two sides will come to a mutual agreement.

There's no doubt that this lockout will eventually end. Global trade is vital to both our domestic and global economy. No president or group wants to be responsible for causing a further global economic meltdown. And there's a company that has the potential to make out like a bandit in this growing global economy.

When I discovered this company that helps optimize the global trade process, I had to dig further. What I found was intriguing. **Vastera Inc. (VAST:NASDAQ)** provides web-based software products and services that facilitate international buying and selling of goods. And it has a market cap of only US$114 million.

Imagine the red tape and all the bureaucratic mumbo jumbo a company must undergo in international trade. Global trade involves the shipment of goods between countries and the management of information and business processes required to complete shipments. Imagine the dynamic, country-specific rules involved in this complex network of trade participants—exporters, forwarders, carriers, brokers, importers, banks, and customs and regulatory agencies.

Vastera's core solution is its global trade content, which is an extensive online library of country-specific rules and regulations needed to automate global trade processes. The company's web-based software applications utilize this content to improve coordina-

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tion and collaboration between the network of trade participants required to complete international transactions.

Clients can subscribe to or license the software products, use Vastera's transaction-based hosted service through its Internet portal, TradePrism.com, or contract the company to provide complete managed services for part or all of their global trade operations.

Breaking global barriers

You may wonder why a company would use Vastera and not create its own department. The answer is simple. The Internet is enabling companies and individuals to expand their reach for buying and selling goods around the world. And companies are taking advantage of this by deploying technologies to streamline and automate business practices for their domestic operations.

The problem is that many companies continue to execute international trade transactions inefficiently, due to paper-based business practices, a lack of coordination among international trade participants, and constantly changing trade regulations.

These inefficiencies are evidenced by a lack of information and excess inventory in international supply chains, inaccurate duty payments resulting in overpayments or fines, or inadvertently engaging in illegal trade. Most large companies maintain costly internal departments dedicated to handling issues related to international trade. Companies that cannot justify this cost often miss new opportunities entirely. Forrester Research estimates that over 46% of Internet-based orders to the U.S. from international clients go unfilled because companies simply lack the ability to fill them. So you see why Vastera's solutions are needed.

Vastera has been growing through acquisitions. In the first quarter of 2002, the company acquired companies in Mexico, Canada and Brazil. It now has operations in the United States, Brazil, Canada, Mexico, Japan and the United Kingdom, and serves an international client base of over 200 companies, including Dell, Ford, Lucent, Microsoft, the New Zealand Dairy Board, Nike, Nortel and Sony.

The company's clients currently utilize its solutions to ship to over 120 countries worldwide. Vastera also provides integrated solutions for specific industry segments, or vertical industries, which are currently used by Internet trading exchanges such as CatalogCity.com, Fasturn.com, RightFreight.com and SupplierMarket.com.

Economic slowdown?

Despite a slowdown in the global economy, Vastera has still managed to increase its revenues. Total revenues increased 23% in Q2 2002 from Q2 2001. And in the first half of 2002, total revenues increased 34% compared to the same time last year. Vastera has three sources of revenues: managed service revenues, software revenues and services revenues. But the fastest growing sector is its managed services.

Vastera's managed services solutions help companies streamline the red tape in global trade. These services include processing customs entries and the classification of the client's goods. Transaction fees are based on an arranged contract. Managed services transaction arrangements are often subject to annual or quarterly minimum transactions.

Here's a good example. On August 29, 2000, Vastera acquired Ford's global customs operations and merged them into its managed services operations.

The company also entered into a managed services agreement to manage Ford's global trade operations. This agreement with Ford U.S. has a minimum term of four years and may continue for a total of ten years.

In January 2001 and March 2001, the company entered into similar managed services agreements with Ford Mexico and Ford Canada, respectively.

In February 2002, Vastera amended its agreement with Ford U.S. to provide for quarterly minimum transaction levels instead of annual minimum transaction levels. This enables Vastera to bill Ford on a quarterly basis for transactions processed in excess of the minimum levels.

In exchange, the company agreed to reduce Ford's U.S. aggregate annual minimum revenue guarantee from US$11.6 million to US$11.0 million.

For the three- and six-month periods ended June 30, 2002, the company derived approximately US$1.0 million and US$2.5 million, respectively, in revenues related to transactions in excess of the quarterly minimum.

In July 2002, the company further amended its agreement with Ford U.S. to bill Ford at a fixed annual rate of US$11.8 million for the remaining life of the agreement, beginning January 1, 2003. Under the amended agreement, Vastera will no longer bill Ford for transactions processed in excess of specified minimum quarterly levels. The company will bill Ford US$4.9 million for the remainder of 2002.

So you see, Vastera has different ways of recognizing its managed services revenues. Due to its flexibility in revenue recognition, the company was able to increase its managed services revenues 52% in Q1 2002 compared to Q1 2001. Managed services agreement revenues accounted for 49% of Vastera's total revenues for Q1 2001 and 60% of its total revenues for Q1 2002.

For the first half of 2002, managed services revenues increased 63% compared to the same time last year. Revenues derived from its managed services agreements accounted for 49% of total revenues for the first half of 2001 and 59% for the first half of 2002.

Down but not out

Although Vastera's managed services revenues have increased, its software revenues have seen a small dip. In Q1 2001, software revenues decreased 2% compared to the same time last year. Considering the slowdown in information technology spending, this decrease is actually not too bad. And part of the reason may be that some of the company's clients have converted to managed services.

The good news is that in the first half of 2002, software revenues actually increased 13% from the same period last year. Vastera has been able to grow its software client base. Software revenues accounted for 21% of total revenues for the first half of 2001 and 18% for the first half of 2002.

Q1 blues

Vastera's final revenue recognition comes from its TradeSphere and TradeValue services. TradeSphere revenues are derived from implementation and training services. TradeValue revenues are derived from management consulting. Both types of revenues are provided on either a time-and-materials or on a fixed-price basis, and are recognized as the services are performed or on a percentage-of-completion basis.

Services revenues decreased 7% in Q1 2002 compared to the same time last year. And because the company saw a slowdown in software sales in Q1 2002, this in turn affected its Q2 2002 services revenues.

For the first half of 2002, services revenues remained relatively constant compared to the same time last year. They accounted for 31% of total revenues in the first half of 2001 and 23% for the six months ended June 30, 2002.

Number-one client

There's one thing I hate to see. Ford accounts for a big portion of Vastera's revenues. So if there's a slowdown in Ford's demand, this will greatly affect Vastera's business. For the three months ended June 30, 2001 and 2002, Ford accounted for approximately 37% and 34% of total revenues, respectively.

Then again, Ford has a 20% stake in Vastera, so it's also in Ford's best interest for Vastera to do well. My main concern is whether the lockout will hurt Ford's bottom line.

But going into 2003, Vastera may be one to add to the portfolio. Institutions are nibbling and insiders have bought over 1.3 million shares in the past two months. **Vastera Inc. (VAST:NASDAQ) is a speculative buy under US$3.00.**

For more information on Vastera Inc., contact investor relations at 45025 Aviation Drive, Suite 300, Dulles, VA 20166, tel. 703-661-9006, fax 703-742-4580, email investor.relations@vastera.com.

Yeah, baby, it's time to make some money!

by Christian DeHaemer

We are within 10% of a medium-term bottom on all major indices. The overwhelmingly pessimistic tone continues to saturate the market. The sheep believe that the way to make money is to go short or buy puts. They are a day late and a dollar short. Trends change.

If you look at a ten-day chart of the S&P 100 index (OEX), you will see a redirection of the three moving averages. We've crossed above the two fastest. You will also note that the short-term trendline has been broken. And all of this has transpired on the retest of the July lows, indicating a double bottom.

The NASDAQ is bouncing around 1,100. There is major support at the 1,000 mark.

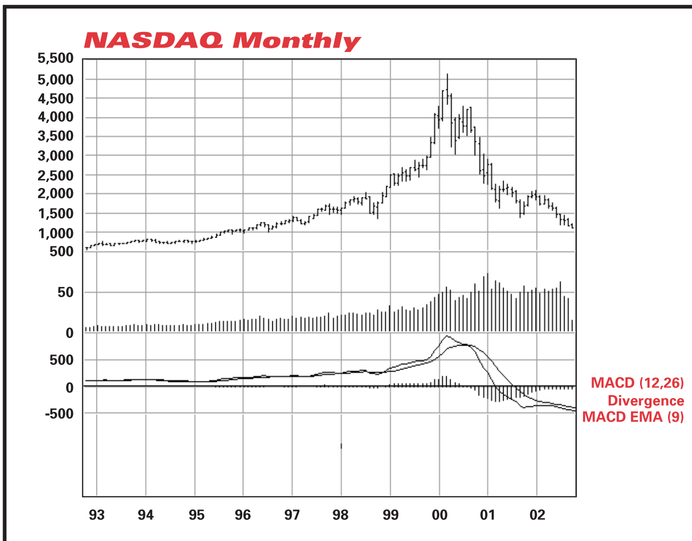
This is a great chart. As you can see, in the second half of 1996 the NASDAQ bounced along 1,000 for six months. I believe that this will be the support point for a 100% gain from this point, and I'll tell you why.

It's 1933 all over again

From February 27, 1933, to February 5, 1934, the Dow climbed 121%. You don't want to be on the wrong side of that. Here are the major bear market rallies after the 1929 crash.

- *48% gain from November 13, 1929, to April 17, 1930*
- *94% gain from July 8, 1932, to September 7 of that year*
- *121% gain from February 27, 1933, to February 5, 1934*
- *127% gain from July 26, 1934, to March 10, 1937*
- *60% gain from March 31, 1938, to November 12 of that year*
- *28% gain from April 8, 1939, to September 12 of that year*

The same pattern emerged in Japan in the 1990s. It is



the way secular bear markets work. First there is a massive selloff, followed by a major, yearlong bounce that brings you back to 50-66% of your former high. Then a second selloff and another, shorter bounce.

As Christoph writes in his editorial: "We will use every dip as a buying opportunity. If you are waiting for 1,000 on the NASDAQ or 6,800 on the Dow, don't expect the market to stay there very long. By the time you realize the market is turning, it will be too late. Start adding to your positions on down days over the next two months.

"If you are lucky, you will be able to time the bottom exactly. If not, you will be within 10% of the lows. Three months from now, your entry won't matter as long as you are long."

Time to buy with the insiders

As many long-time *Taipan* members know, last fall we made a killing by buying dot-com survivors. These days, the walking wounded are plentiful. Insiders are buying like mad, and plenty of these companies have cash.

Thomson Financial has indicated that insider selling in September fell to its lowest monthly level in eight years, dropping 55% from US$1.5 billion in August to US$671 million in September. That's the lowest volume since December 1994. 1994 was a great year to start investing.

Buying the telecom wipeout!

It may seem odd after a year of hearing about the likes of WorldCom. But after doing my due diligence, it turns out that the biggest buyers of stock among corporate insiders are in the telecom market.

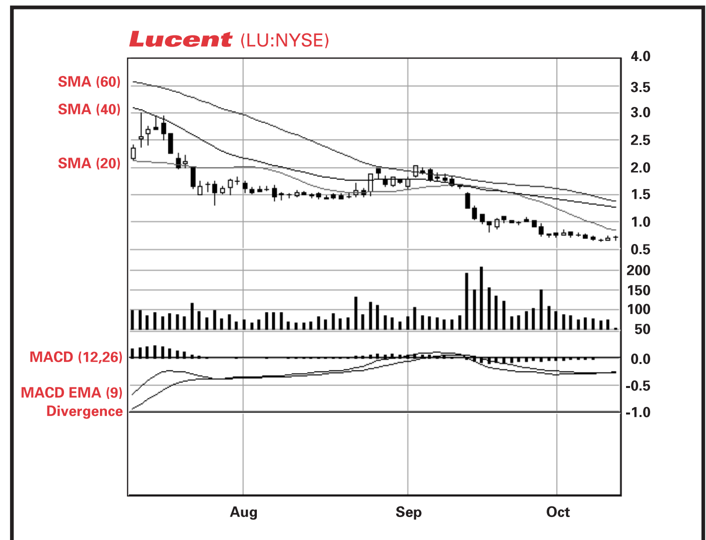
Number one on my list is **Lucent (LU:NYSE)**. Since August, there have been eight insider buys of 1.83 million shares at an average price of US$1.60. This may not seem like a lot considering LU has revenue of US$15 billion a year, but you will note that there were zero insider buys up until August.

As you can see by the chart, there was a great deal of volume in September that coincided with the insider buying. Perhaps what I like most about this stock is that today, the company announced another cost-cutting measure (slashing 10,000 jobs) and lowered predictions for Q4.

After news like that, you'd expect a bloodbath in the market. But the stock is up today to 74 cents. The company plans to lower its breakeven point to US$2.5 billion a quarter and be in the black by 2003.

Lucent has more than 5 billion in cash, a price to sales ratio of 0.16 and a market cap of 2.4 billion. There are three ways this stock will bounce back. One, the market for telecom equipment rebounds after the shakeout. Two, they are bought out. Three, they reduce costs below the US$2.5 billion quarterly revenue goal. Any or all are possible, even likely.

Buy Lucent (LU:NYSE) today. This time next year, you might be very glad you did. Contact: 600 Mountain Avenue, Murray Hill, NJ 07974, tel. 908-582-8500, fax 908-508-2576, email investorrelations@emsr.lucent.com.



More insider buying

If you don't want to put all your money in one basket, I don't blame you. I have four more beaten and bloody tech stocks with tons of insider buying: **Advanced Micro Devices (AMD:NYSE), Akamai Technologies (AKAM:NASDAQ), Ciena (CIEN:NASDAQ),** and **Nortel (NT:NYSE).**

Nortel has seen 26 insider buys over the past six months. The company has US$4.8 billion in cash and a market cap of US$1.6 billion. It is currently trading at 49 cents. Today, Nortel reconfirmed its revenue estimate of US$2.36 billion for Q3. They expect to break even in Q2 2003. This is an even better buy than Lucent. **You can buy some today for US$.048. Contact: 8200 Dixie**

Road, Suite 100, Brampton, ON L6T 5, Canada, tel. 905-863-0000, fax 905-863-8423, email investor@nortelnetworks.com.

Advanced Micro Devices is trading right at cash and has some insider buying (24,000 shares at US$7.39). It currently trades for US$3.79.

Akamai has had four insiders buying more than 260,000 shares north of two dollars over the past six months. Again, this buying was preceded by years of insider sells. AKAM has US$150 million in cash with a market cap of US$85 million. You gotta like that. They will announce earnings on October 16. AKAM currently trades for 76 cents. **Buy some.**

Ciena has had 6,000 shares purchased over the past six months with prices as high as US$10 a share. CIEN is currently trading for US$2.76. They have US$1.69 billion in cash with a market cap of US$1.18 billion. **Contact: 1201 Winterson Road, Linthicum, MD 21090, tel. 410-865-8500, fax 410-865-8600, email ir@ciena.com.**

MICROCAPS

Alone on the ranch

The only US$2.07 company that is government-approved to lead the war against bioterrorism

by William Bradley Colburn

Imagine you're in your office sweating like Louie Anderson during his comedy routine at Madison Square Gardens. It's 60 degrees outside, but you're just gushing. That new report you've been working on is sitting there, turned to page three but your mind is still on page one. You ask yourself, "Hey, what's wrong?"

Your body replies with the strongest answer anyone or anything can give. You are physically forced to the office bathroom. On the way, a Pazuzu-like demon is talking to you in two different voices. Once you get to the Ivory Palace, the voices converge and actually attempt to come out of your body from two opposite ends.

Add to this a serious round of the chills with a dash of the shakes. Your muscles convulse as rivers of fire rip through them.

In the middle of all this is a lone figure saying four little words: "God, kill me now!"

Now, I haven't taken you through this Fellini-esque nightmare for no reason.

And before you ask, no, this is not the day after a few too many rounds at the Dewdrop Inn. These are the symptoms of something much more serious.

Malaria.

Whoa, whoa. Don't stop reading. I didn't just pull this story out of thin air. Granted, I have some issues, but even my overly-caffeinated mind couldn't come up with a doozy like this. Back to the matter at hand…

And you thought the West Nile virus was nasty. West Nile kills you, but it bags the body up quickly. The effects of malaria, on the other hand, may take a year to develop. Or as little as three days.

Birth of a new terror

Out of the estimated 300-500 million worldwide cases of malaria yearly, over one million people die. That includes 1,200 in the United States. These domestic victims are mostly immigrants and tourists from areas of the world where malaria is active, such as Africa and India.

I did say almost all U.S. malaria deaths can be attributed to visitors, didn't I?

Good, then the new case just discovered in Virginia shouldn't scare you that much, right?

Well, check this out…

Malaria-carrying mosquitoes have been found near the homes of two infected teenagers. Authorities say it is the first case in at least two decades in which malaria was detected in mosquitoes and humans in a U.S. community.

Two pools of malarial mosquitoes were discovered on Wednesday, September 25, 2002, near the Potomac River. One was four miles and the other six miles from the Loudoun County, Virginia, homes of the two teenagers who were diagnosed with malaria over the summer.

The strain is relatively mild and easily treated.

Still, the discovery prompted officials in Maryland, less than a mile from one of the infected pools, to call in a military team of experts to help eradicate infected mosquitoes.

Granted, these kids have not died… yet… but you know where this is headed.

Just like the West Nile virus outbreak of this past year, this could get ugly real quick.

This, and the fact that the new outbreak happened no

more than 75 miles away from my desk, is what moved me to action.

Texas Rangers to the rescue

I have discovered a company that could treat the severe effects of mosquito-borne diseases—everything from West Nile virus to Blackwater Fever.

What's even better? This company is just getting on its feet. With the work they have been doing and the breakthrough they are about to unveil, I think this company could shoot to the moon pretty fast.

The name of the company is **Texas Biotechnology (TXBI:NASDAQ)**.

Texas Biotech develops and commercializes small-molecule drugs aimed at cardiovascular and inflammatory diseases.

Concentrating mainly on heart conditions, Texas Biotech works on the following diseases: heparin-induced thrombocytopenia (HIT), ischemic stroke, pulmonary and essential hypertension, chronic heart failure, and asthma.

Texas Biotech is poised to ride this new wave of disease prevention to higher ground. Their heart medication—which indirectly cures encephalitis as well—is already completed and approved. And with this new outbreak of malaria, they are about to fall into a goldmine.

Especially when you take into consideration that these diseases are thought to be terrorist threats.

Strapping on the battle gear

There has been speculation that Saddam Hussein was behind the West Nile virus scare. Many believe Saddam sent the virus as an act of bioterror.

Whatever the cause of the malaria and West Nile virus outbreaks, one thing is for sure: shares of TXBI could benefit from the scare.

Looking at Texas Biotech's chart, you can see a tasty spot where investors could have bought in knowing that something big was about to happen. Those investors could have made off with huge profits if they had gone long in August 1999 and sold at the end of February 2000.

The same kind of increases could be stirring again with Texas Biotech.

There were some minor volume spikes in mid March and June, but there's no way to tell exactly what caused them. Probably just smatterings of information about drug trials.

But Texas Biotech could see a huge upswing in share price if its new one-of-a-kind drug starts getting used to treat patients with malaria and West Nile virus.

The cowboy in white...

Argatroban is Texas Biotech's new baby. Just entering the FDA's Phase III trials, Argatroban is about to make it big.

It is the only FDA-approved drug to treat HIT.

It is also possibly the only FDA-approved drug in the fight against mosquito-borne diseases.

You're probably sitting there wondering, "How can you correlate heart medication with mosquito-borne diseases, especially malaria?"

Well, it's all one long, winding road.

One of the other diseases that Argatroban attempts to treat is ischemic stroke.

Ischemic strokes, which account for approximately 80% of all strokes, are caused by an obstruction in an artery, generally one of the carotid arteries that carry oxygen-rich blood from the heart to the brain.

So what, you say?

Ischemic stroke has another potential side effect. This is encephalitis. As you may know, encephalitis is one of the symptoms of West Nile virus.

Which is transmitted by mosquitoes.

Ah, there's the rub!

To date, West Nile has killed 136 humans in the United States and infected 2,631.

It is not known if encephalitis was the main cause of these deaths, but it is partially to blame. More than 20 deaths from West Nile encephalitis have been reported in Illinois alone.

The victims are dying due to the main effect of encephalitis—inflam-

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mation of the brain. Other symptoms include high fever, drowsiness, intense mood swings, and possibly coma.

This is where Texas Biotech rides in, spurs a-shinin' and saddles a-blazin'. Their drug Argatroban, although not specifically intended to cure encephalitis, does take care of the problem. Since both stroke and encephalitis have the ability to induce coma, Texas Biotech is roping two dogies with one lasso.

If you remember back to our malaria discussion, I said that Texas Biotech could change the way we treat mosquito-borne diseases.

Here's how they'll do it:

You remember that malaria can be a fast-acting illness. There is one other thing to add to that: there are four different types of the disease.

Of the four—*P. falciparum, P. vivax, P. ovale,* and *P. malariae*—the first could greatly benefit from Texas Biotech's Argatroban. It is like the other malaria variations, except that on top of kidney failure, seizures and mental confusion, it can also cause coma and death.

Which is why hopping on Texas Biotech's wagon train of profits is a good idea. They could have the market cornered on mosquito-borne disease treatment. Their drug Argatroban might possibly save hundreds of thousand of American lives.

Time is running out for getting in on this company, which is currently trading at around US$2.07. Get in now and be prepared for new outbreaks of malaria.

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Wealth Institute's Total Immersion Venture Capital Investing Course

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

by Siu-Yee Ng

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

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

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

Well, it's simple, really.

They have a special kind of knowledge.

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

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

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

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

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

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

Not only will a handful of *Taipan* editors be on site, but others as well. I would hate for you to miss out on this once-in-a-lifetime opportunity. The clock is ticking. You'll need to contact Vickie Beard immediately at tel. 410-454-0495 or email vbeard@agora-inc.com.