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TAIPAN

FORESIGHT COURAGE PROFITS

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Bull or Bear: Who cares? When fear and greed result in sideways markets, look to the *Dynamic Market Theory* for profits

Martin Denholm
Executive Editor

The markets, they say, are a reflection of human emotion. Mostly fear, with a healthy shot of greed. If the markets go up, they blame it on "irrational exuberance". If they go down, it's panicky investors.

Sometimes, of course, it seems like both emotions work against each other, much like noise and anti-noise, where one sound wave alternates with a diametrically opposed one. The result is dead silence. Looking at the markets this past October, we were reminded of noise cancellation technology, as the American indexes continued their unsatisfying sideways motion without establishing clear trends to the upside or downside.

Luckily, we at *Taipan* don't care all that much about the general market climate. In fact, our operative philosophy — we call it *Dynamic Market Theory* — helps us detect money-making opportunities no matter where the indexes are headed.

Accordingly, *Taipan* members were sitting pretty as our "House Hedge" strategy racked up gains of 17% and 85% in the space of one week. (Consider this: We're making money on the downside of the American real estate "bubble"… and property hasn't even budged yet!)

As investors ran to jump on speeding trains in the oil and energy sector, we quietly (albeit not modestly) took 34% gains on the first half of our position in **Patterson-UTI Energy (PTEN-NASDAQ).** And our long-term Core Portfolio cornerstone position in **Suncor Energy (SU-NYSE)** is up a whopping 81%.

Not bad for a month in which the Dow kept shedding and adding 200 points. You ain't seen nothing yet!

Read on for my latest stock recommendation and find out how you can profit from a flourishing company shaking up the education sector. ■

The lazy slob student's worst nightmare: Back to class! Eyes on the Blackboard for a company enhancing education and growing at a 27% clip per year

"In the next 10 years, online teaching and learning will be part of the DNA of educational institutions." That's according to 32-year old Matthew Pittinsky, chairman and co-founder of a company responsible for making this happen — and one gradually changing the face of education.

And while it's great for professors, conscientious students and education administrations everywhere, bone-idle slob students probably curse this company each and every day! Fancy skipping class in favor of the extra hour in bed, watching mind-numbing television or going shopping? OK — but don't think that means you get to conveniently avoid the classwork, neglect handing in the assignment, or play for extra time with some lame excuse like "I forgot what time-zone we were in" or "Timmy the dog ate my homework." This company's services are putting an end to that nonsense.

Pittinsky's partner is 33-year old Michael Chasen, with whom he founded Washington, DC-based **Blackboard Inc (BBBB:NASDAQ)** in 1997, having graduated together from American University. Some folks might be skeptical about the fact that two guys, so young, are running the company and that the members of the executive board are all between 32 and 43-years of age. But there's no doubt that this is a young, vibrant and flourishing company — and their capability is evidenced by a 23% return-on-equity, compared with the industry average of 10%.

And while the stock only IPO'd in June 2004 for US$53 million, the fact that the company is still around means it's immediately classified as a "dotcom survivor."

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The ultimate learning buddy

But Blackboard isn't just surviving these days. It's forging ahead in leaps and bounds, providing its software applications to schools, colleges, universities and publishers throughout the education sector both in the U.S. and across the world, too.

Through its Blackboard Learning System, professors and administrators can post any number of course materials. Students simply log on to get everything they need in one place. This includes course guides and timetables, class notes and lists of external resources, such as bibliographies and required reading. They can also take assignments and tests through Blackboard's system, as well as participate in live, online tutorials and class forums. Naturally, this doesn't replace the physical, in-classroom teaching and learning experience, but rather complements the process. And like I said, this is great for teachers who tire of dealing with lazy students, as all of the material is on the site. It's also a key learning tool for diligent students, particularly those engaged in distance learning.

King of the campus

But Blackboard's services aren't just restricted to the learning field. You can also find its footprints all over campus. The Commerce Suite system specializes in online e-commerce and a range of institution facility management services such as ID cards, vending services, meal and laundry services. Blackboard also puts other university facilities on its site, such as medical centers, as well as student body organizations like clubs, team sites and fraternities.

The Blackboard Transaction System allows students to pay for academic costs, meals, laundry, etc. with their ID cards. They can use the site online to check balances and transfer money from their regular bank account to their university account. Blackboard One also allows students to pay for goods off-campus with their university ID card.

Ready for winter and ready to keep growing

So what makes Blackboard a good investment right now? Well, besides the fact that the winter semester is just around the corner research gathered from almost 900 academic institutions from Zogby International (and commissioned by Blackboard) in September 2005 found that online learning is surging in popularity, with an increasing number turning to online facilities to aid teaching and learning. Check out the statistics:

> ***Online learning is surging in popularity, with an increasing number turning to online facilities to aid teaching and learning.***

- From the spring semester of 2003 to the current fall semester, e-learning users have risen ten-fold.
- During the spring semester of 2003, 1.2 million assignments online. But by the spring of 2005, that number shot up to more than 16 million.
- In the spring semester of 2003, Blackboard course offerings online stood at 225,716. But today, that number has soared to 1.2 million.

As far as Blackboard is concerned, over 2,000 academic institutions across America have employed its services. That includes over half of all U.S. colleges and universities. It's still boosting its client base and has a remarkable client retention rate of over 90%.

K-12, Release 7 and the Blackboard Backpack

Among the next steps for Blackboard is branching out to the American K-12 sector, where parents can track their childrens' progress by looking at test scores, homework assignments and teacher reports. Great for them, but not so much for the kids!

Blackboard is also pushing to expand in foreign markets, which could be worth US$2 billion. It recently opened up a new facility in Europe to help with expansion and has translated its programs into eight different languages (the standard pack includes English, Spanish, Italian, French, German, Dutch, Japanese and Chinese) and just launched the latest version of its Academic Suite software program — Release 7.0. This is a major new developmental platform that provides the foundation for future upgrades and includes language packs that allow teachers and students to use Blackboard's services in their native language, as well as a specialized Language Pack Editor that enables users to create their own language.

Another new system linked to the Release 7.0 is Blackboard Backpack. Together with Agilix Labs, this mobile program is designed to allow teachers and students to access and download up-to-date content from the website when offline. This revolutionary program is the first of its kind in the education sector and allows the user to place course content from the Blackboard Learning System and Content System on to the Blackboard Backpack database on their computer. They can then view it, work on it and organize it offline exactly as it appears online. Any changes are updated automatically. Through the system, students can even take digitized handwritten notes and convert them to text.

In addition, Blackboard just joined the ranks of those companies that are building up by buying out. The company just agreed a deal to acquire one of its major competitors, WebCT, for US$180 million. This brings together two top-rated online educational systems and will allow for bigger and faster expansion of services abroad. Quite simply, this also gives Black-

Blackboard (2-Year Chart)

board more expertise, more resources, more clients — and, of course, more revenues. The merger will be completed at the end of the year or early in 2006.

Making friends with Microsoft

But that's not the end of Blackboard's dealings. The company just inked a major new agreement with Microsoft that will combine the two companies' software platforms. Specifically, it will center on Blackboard's Community System service and Microsoft's SharePoint Portal Server that will see enhanced compatibility between the Blackboard Academic Suite and Microsoft Office. The deal comes after many calls from both Blackboard and Microsoft customers using both systems for increased user-friendliness. Investors loved the news, sending shares galloping to an all-time high of US$28.56 on October 19, 2005.

Blackboard scores a Grade A on the financials

Ready for some math? I always hated it at school, but these are the kind of numbers that make me smile.

Over the last 12 months, Blackboard has raked in US$123.8 million in revenue — up 24% over the previous 12-month period and equivalent to US$4.75 revenue per share. Net income from that hit US$19.7 million — a whopping 524% jump.

Merrill Lynch states that 86% of Blackboard's clients only purchase one of its services — so there's plenty more room to grow.

Break down the numbers from 2005 so far and you'll see one pretty picture:

- First quarter: Revenues hit US$30.9 million over US$25.2 million in Q1 2004 — up 23% over Q1 2004. Net income finished up 588% to US$5.4 million over US$786,000 in Q1 2004 (20 cents per share over -$0.33).
- Second quarter: Revenues of US$33 million over US$26.4 million in Q2 2004 — a 25% jump. Net income totaled US$6.1 million over a loss of US$2.7 million in Q2 2004 (21 cents per share over -$0.37 — a 477% rise).

That brings total year-to-date revenue up to US$63.9 million, compared with US$51.6 million over the same period in 2004 and earnings-per-share to US$0.41 — a 524% surge. This is a company now growing and turning a tidy profit for shareholders.

For the third quarter, Blackboard sees revenues totaling between US$35.4 million and US$35.9 million and net income finishing at US$6.2 million to US$6.5 million, or 21 to 23 cents-per-share.

By the time 2005 is in the books, Blackboard expects to see full-year revenues of US$134 million to US$135 million and net income of US$24 million to US$24.6 million (84-86 cents EPS would be a 75% leap over 2004). Next year looks even better, with revenues rising 15% to a range between US$155 million and US$159 million and an operating margin of 20%. Blackboard's current profit margin of 16% beats the industry average by 6%.

Looking forward, the company is well-placed to implement its expansion plans, with almost US$100 million cash on the books and just US$439,000 in debt. The company is forecast to boost earnings by 27.5% annually over the next five years.

But that could just be the tip of the iceberg. Merrill Lynch states that 86% of Blackboard's current clients only purchase one of its services — so there's plenty more room to grow if the company can sell them and then hook them on the rest of its products.

Company insiders seem very confident of further success in the future, with current holdings of 45%. And investment teachings say that's a pretty strong indication that a company is on the right track. So don't skip class on this one.

Buy Blackboard Inc (BBBB:NASDAQ) under US$28.50. ■

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Playing with the X-Box 360: Take your profits now as this software maker enjoys four months of unchallenged dominance

by Alex Chinn

Mark your calendar: November 22, 2005.

This is the date that Microsoft has picked as the release date for its highly-anticipated X-Box 360 video game console in America. Given that Sony's PlayStation 3 isn't expected to launch until late Q1 2006, that should give the 360 about four months of unchallenged dominance. It should make big bucks over the holidays.

But how are you going to turn a profit from the X-Box 360, too?

You certainly won't do it by buying Microsoft stock. The company is too heavily followed and traded, and there isn't much upside to its stock. ATI Technologies and IBM are both overpriced and will see little business from the 360 for it to have a big effect on their bottom lines.

Retailers? Big ones like Wal-Mart and Best Buy won't be affected by one product enough to be considered. The big one to look at is GameStop. The company is showing strong sales growth and just bought out rival Electronics Boutique. However, the stock has already enjoyed a hearty run over the past 12 months, more thandoubling over that time. And in acquiring Electronics Boutique, it just took on a boatload of debt. There simply isn't that much upside left.

Hard profits from software

How about software makers? These companies should profit most from the launch of both new systems. Plus, with the 360's small launch library of games, two or three companies should be raking in all of the sales for a few months.

The most tempting choice would be Electronic Arts. EA has owned the video game software market since the early days. It has a massive catalogue of games and has acquired many successful studios such as France's UbiSoft. It also has a total lock on sports games. Its "Madden NFL" line is one of the most successful franchises ever. EA has as many as six different sports games scheduled to be released for the 360 by the end of November.

But don't buy it. The stock is overvalued, with a P/E of 40 and a PEG of 1.6. It topped out near US$70 in March before sliding almost US$20 (although it has since recovered US$10). What's more, the company isn't seeing much growth right now. Net income dropped 13% last year and its fourth quarter revenues declined 7.5% year-over-year (US$0.02 earnings-per-share, compared to US$0.30 EPS in the same quarter last year). These are stagnant numbers for an overpriced stock.

Activision = active profit potential

Instead, buy **Activision (ATVI:NASDAQ)** — a company with plenty of upside potential and in the middle of a strong uptrend. More importantly, it makes four of the 21 launch titles for the 360, including three big ones.

These includes the *"Tony Hawk"* series of skateboarding games — a consistent moneymaker for several years. The upcoming new version will surely find buyers.

The *"Quake"* series can boast that it's been profitable even longer, with the first version being released in 1996.

The third big game is being called the most impressive launch title for the 360. It's the newest addi-

tion to the *"Call of Duty"* line, creatively titled *"Call of Duty 2."* The first *"Call of Duty"* was a big seller across multiple platforms and I doubt the sequel will be any different. In fact, I expect *"Call of Duty 2"* to top the game sales charts for December.

Activision's financials are heading in the right direction, too. 2004 revenues jumped 10% to US$947 million. Net income grew 17.5% to US$77 million. The company also reduced share dilution during that time by buying back some 7% of its outstanding shares. Working capital leapt 60% last year to US$675 million, while cash and cash equivalents rose 44% to US$587 million. The company also wiped out all of its long-term debt, which had been as high as US$73 million in 2000 and stood at US$2.6 million last year.

Assets also rose 37% over that time and currently stand just shy of US$1 billion. Accounts payable jumped 295% last year, with about US$62 million waiting for collection.

If you look at the distribution of sales across the various consoles, you'll also notice that last year, ATVI game sales rose only 11% on PS2 games, while it jumped 93% for X-Box games. And Activision is staying focused on expanding its X-Box market right now.

With the X-Box 360 launch in two months, it will mark the first 7th Generation video game console released, and the first overall since the original X-Box's 2001 debut. It will undoubtedly rack up massive sales throughout the holiday period and continue unimpeded until the PS3 steps up to challenge it.

During that time, Activision games should be flying off the shelves. It will bring three hugely successful franchises to the table — a vital component in the video game industry, since users usually gravitate to franchises they already know and trust. When the PS3 is finally released, you can bet Activision will have titles slated for that, too.

The future is bright in the video game sector, and for few companies is it brighter than Activision.

Buy ATVI shares under US$23.■

SEASONAL PROFIT OPPORTUNITY

The bright lights of Hollywood: Let Tinseltown jazz up your portfolio this holiday season, with 45% to 68% gains in four months

by Brit Ryle

Fancy a trip to the movies this holiday season? Perfect — because that's where you should be. And this company would look marvelous in your portfolio, too.

Trading for just 18 times next year's earnings estimates, **Lion's Gate Films (LGF:NYSE)** is primed to make some investors 45% to 68% richer in the next four months. And in two years, you can bag triple-digit gains from the stock.

As a regular movie-goer, Lion's Gate isn't one of the industry's names that immediately springs to mind. But once I'd done some due diligence, I realized, "Hey, I've seen some of these movies."

Lion's Gate has had a few top films in the past year. *"Diary of a Mad Black Woman"* grossed US$27 million in its first weekend. *"Lord of War"* is in theaters now and has scooped nearly US$24 million. Video sales should bring in at least another US$26 million. That's not bad progress for a company that had just US$300 million in revenues two years ago. Annual revenues this fiscal year should come close to US$900 million.

The surprise package of the holiday movie season

For movie companies like Lion's Gate, there is one key ingredient: The potential for a blockbuster hit. It's the ultimate prize and for Lion's Gate, it comes with a classic David versus Goliath subplot, as it battles its bigger rivals.

The company has enjoyed a few scrapes with blockbuster-hood. For example, the October 2004 release of *"Saw"* grossed US$71 million in revenues — despite it mostly being two actors in a single room. The bonus was that the film cost just US$1.2 million to make. That's a return on investment of nearly 3,000%.

But that's nothing compared to the August 2004 release of *"Open Water."* This one cost US$500,000 to make and grossed an amazing *US$51 million*! That's a return on investment of over 5,000%.

That's Lion's Gate's stock-in-trade: It doesn't spend a lot to make a movie. US$30 million is about tops for a budget, and that practically guarantees that the company will at least break even.

So with Thanksgiving and Christmas coming up, Lion's Gate could easily pull off the upset of the holiday movie season — just like

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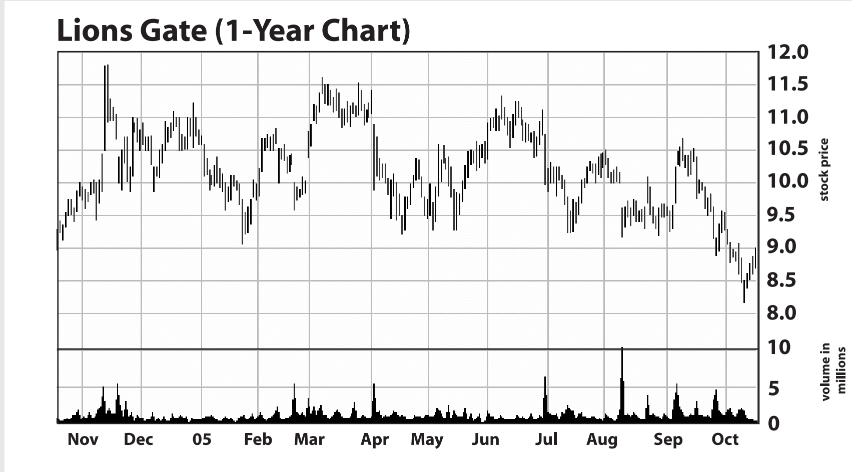
Rocky III. Between now and the end of the year, it will release the sequel to the popular *"Saw," "In the Mix,"* which stars ladies-man Usher, *"Three Extremes"*, and *"A Good Woman"* starring Helen Hunt.

But one of the other major reasons why I like Lion's Gate potential for a blockbuster is that it makes lot of horror films. And teenage audiences will converge like flesh-eating zombies to the theater and then the video store for a good horror movie these days.



The second wave of profits

While it's easy to get caught up in the actual movie-going experience, don't forget that video sales are every bit as important to a movie's bottom-line as box office receipts — sometimes even more important. If a movie bombs at the box office, the loss can be offset in DVD sales and rentals. And consumers are still gobbling up inexpensive video rentals, with a steady stream of DVD buying, too. Since 2000, sales have grown at a 66% rate. And it's estimated that movie companies will scoop up US$18 billion from retail DVD sales this year.

Step into my library

For the last five years, Lion's Gate has actively pursued struggling movie distribution companies that own large film libraries. In the process, it has acquired notable names like Trimark and Artisan Entertainment.

Not only does this strategy save the company save money by owning some distribution channels, Lion's Gate now owns the second largest DVD library in the world. It even owns holiday classic *"It's a Wonderful Life!"*

All told, Lion's Gate owns over 9,000 movie titles and therefore owns a steady stream of sales revenue estimated at better than US$200 million a year.

And that's not all. Lion's Gate has collaborated with the major production houses on movies like *"The Day After Tomorrow"* and *"Hotel Rwanda."* The company owns a record label and produces television programming like *"The Dead Zone," "Wildfire"* and new reality show *"The Cut,"* hosted by designer Tommy Hilfiger.

A buyer or a seller?

One company that Lion's Gate recently tried to acquire was DVD distribution company Image Entertainment (DISK:NASDAQ). Image also owns a large catalog of movies that Lion's Gate wanted to get its paws on. At the time, the all-stock deal valued Image Entertainment at US$91 million.

Investors didn't like it too much. News of the acquisition sent Lion's Gate stock down from US$10.60 to its current price around US$8. It sounds like a decent move for Lion's Gate to me, but that lowers the value of the deal. But if it gets nixed in light of the change in value, it'll be no biggie. Oh, except for the quick 30% move back to US$11, that is, which actually is kind of a biggie.

But is Lion's Gate a buyer or a seller? The potential exists for a bigger movie company to snatch Lion's Gate up (at a handsome premium to current shareholder value, of course) somewhere down the line.

Its collaborations with major movie houses and the extent of its video library certainly makes it an appealing candidate on Hollywood's radar screen. For example, deals with comic book company Marvel (MVL:NYSE) should interest any Hollywood giant looking to make a quick and inexpensive expansion. Based on its current valuation, at least one analyst has a buyout price of US$13.65 on Lion's Gate. That's 56% higher than where it is now.

But it's the company's fiscal approach to making movies that's likely to make it a really attractive acquisition candidate. As I mentioned, it rarely spends more than US$30 million to make a movie and its profit-sharing allows it to attract some of Hollywood's biggest stars. Headliners such as Robert De Niro, Dustin Hoffman, Nicholas Cage, Ben Affleck, Halle Berry, Billy Bob Thornton and Chris Rock have all appeared in Lion's Gate movies.

Tell 'em Taipan sent you

However, while a buyout might be worth 56%, I'd rather see the company continue putting its solid business model to work. That's because the company is fairly valued right now.

Lion's Gate trades at a 10% discount to its enterprise value. The company is currently valued at a little more than annual revenues. And that's particularly interesting as the company is just about to turn the corner to stable profitability.

Trailing 52-week profits are just US$10 million. That puts the current price-to-earnings ratio at 95. But when the current fiscal year ends, Lion's Gate is expected to have shown a US$30 million profit.

But next year, fiscal 2007, which starts in March 2006, is when things really get going. Net profits are expected to be US$45 million on sales of US$915 million. That puts next year's P/E ratio below 20. Now we're starting to see some real value emerge.

But the real kicker is the potential to release a blockbuster. Any of the 20 or so films Lion's Gate releases in the next year could hit blockbuster status and gross US$100 million or more.

Given the company's current revenue structure, any upside surprise goes straight to the bottom line. So Lion's Gate has at least 50% upside potential to its net profit. And there's absolutely no upside priced into the stock at the moment, which is good news for you.

I think a run to US$13-US$14.70 is highly likely by March 2006. That will be worth 45%-68% to you right away. Over the next two years, my minimum stock price is US$18 — and that's only if the company continues on its current course. All it will take is one blockbuster to push the stock above US$21, a 140% gain from current levels.

I want you at the movies. And I don't think you'll be disappointed. **Lion's Gate Entertainment Corp (LGF:NYSE) is a strong buy below US$9.50, with a two-year price target of US$21.**

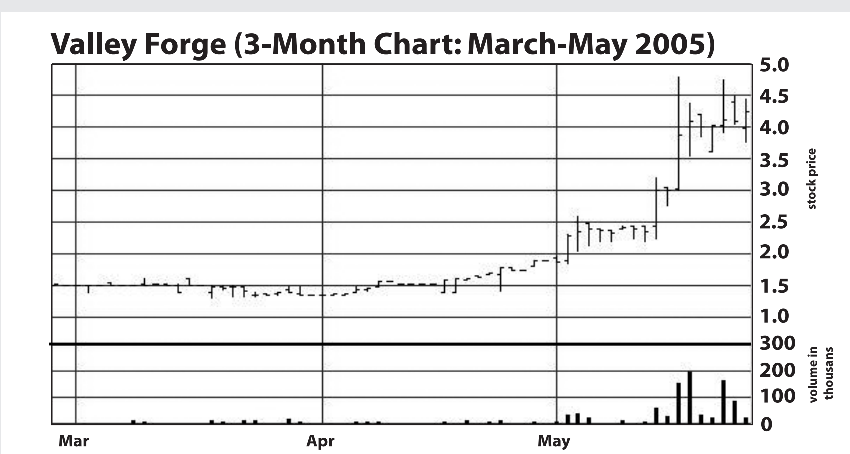
STRATEGIC WEALTH

When two become one, the volume spikes: Use this lucrative investment tool to cash in on a fast-growing medical company riding a bullish wave

by William Colburn

Enclosed with your *Taipan* issue this month, you'll find a report telling you all about one of my trading services — the *Volume Spike Alert.*

As the name suggests, this system focuses on sifting through thousands of stocks, looking specifically for the ones experiencing large volume spikes. Whether it's confident insiders trading in anticipation of exciting developments, or investors trading on good news, the system is able to alert me to this kind of action, when I can then conduct further research and send out immediate trades to my readers. Take a look. It's remarkably simple in nature — but very profitable. For example, since the begininning of 2005, closed positions have averaged a 32.1%. From July 8 to the present date they've averaged a 46.6% return.



Back in May, I wrote to my *Volume Spike Alert* readers about a tiny healthcare stock that was enjoying a huge pop in trading volume. That stock was called Valley Forge Scientific. Check out the chart and you'll see the big volume spikes that got me so interested.

But what was causing these spikes? Upon closer inspection, I saw that not only did the company have killer earnings, but it was also about to merge with a privately-held equipment company called **Synergetics (SURG:NASDAQ)**.

Valley Forge develops medical devices for use in surgery and other healthcare applications. Its core business involves the manufacturing and sales electro surgical generators based on its DualWave technology, which allows doctors to make safer and more precise cuts during surgery. And as the numbers bear out, it's a pretty successful business.

In the last fiscal year, Valley Forge revenues totaled US$4.8 million. Second quarter sales this year hit US$1,816,029 — 60% higher than

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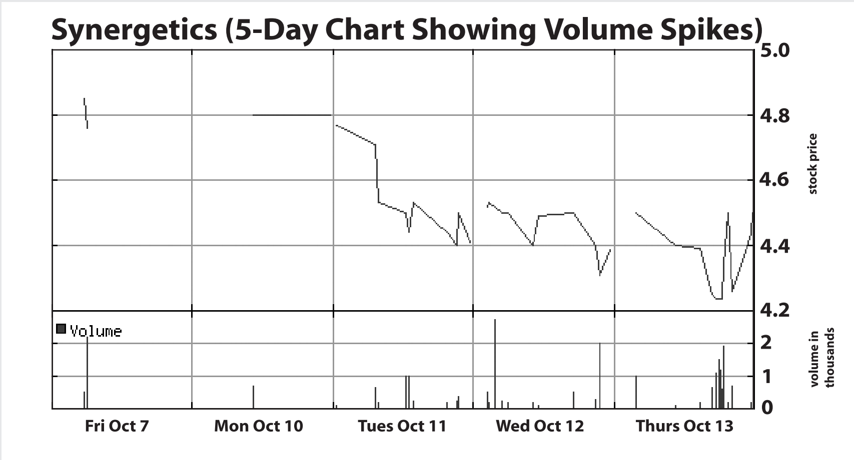


the US$1,132,771 recorded in Q2 2004. Operating income of US$270,471 was a massive 1,887% improvement on the US$13,612 in Q2 2004.

As it stands today, Valley Forge has officially changed over to Synergetics — a development that has popped yet another batch of volume spikes, as this chart shows.

With the two companies now working together, I anticipate further success and volume-rich spikes, allowing you to take advantage.

Buy Synergetics (SURG:NASDAQ) under US$5.25. ■

TRADING WITH THE TREND — ENERGY SECTOR WEALTH

A quick 43% in three months from this U.S. Department of Energy darling

by Sara Nunnally

No one knows better than the U.S. Department of Energy what the next generation of energy use and devices will be. So to find the next trends, look at what it buys.

Recently the U.S. DOE and the U.S. Armed Forces have been snapping up electric converters and hybrid electric motor technologies.

In the past three months alone, the U.S. DOE has awarded two contracts to one small company. This company has also received three separate orders from the Armed Forces, and one award honoring its technological innovations.

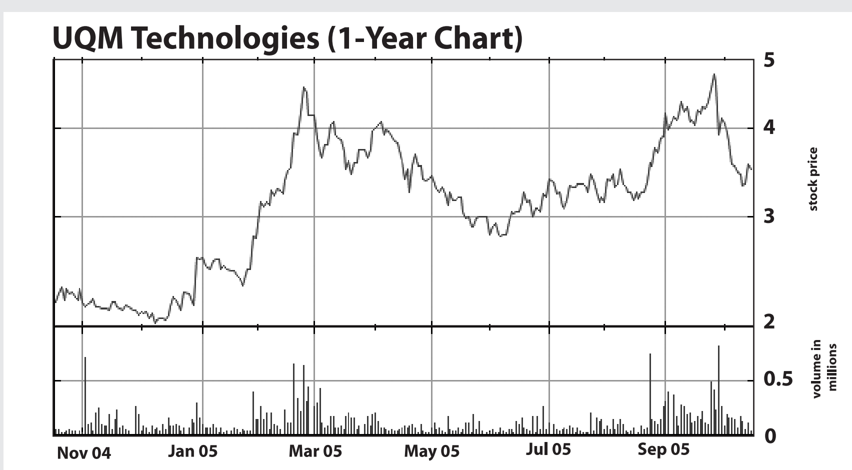
This company is **UQM Technologies, Inc. (UQM:NYSE)** — and now is the perfect time to get in. UQM is in the electric motor business. And it's darn good at it.

Its stock price has grown 58.11% in the last year, and has more than doubled its working capital. Its quarterly revenue growth jumped 68.6%, year-over-year. Compared to the industry's growth of 12.9%, UQM wins, hands down.

Its latest contract provides the U.S. Army with hybrid electric propulsion systems for use in a prototype as part of the U.S. Army's evaluation of a next generation tactical wheeled vehicle.

In October, the U.S. DOE awarded UQM Technologies a US$600,000 Phase II contract for the development of a 5 kW modular inverter. This inverter would help alleviate power disruptions, especially in areas where power grids have been disabled — such as where Hurricane Katrina and Rita damages are ongoing.

The recent influx of contracts for UQM Technologies created a sharp rise, which peaked in late



September. Since then, UQM has corrected its path, and has currently settled into its long-term rising uptrend.

Although this play is designed to be a long-term hold, this presents you with an opportunity to make a quick 43% rise in the next three months. However, I see much more upside potential. This company could realistically double or triple by Christmas 2006.

Buy shares of UQM Technologies, Inc. (UQM:NYSE) under US$3.75. ■

Taipan continues to hunt and hedge for housing gains: 17% and 85% profits in a week

by Martin Denholm and "House Hedge" creator Bryan Bottarelli

Is there a housing bubble in America?

If so, is it going to pop? And if it does, when will it happen and how bad will the fallout be?

Scroll through any of the mainstream financial media output either online or in pretty much any newspaper or magazine and you'll likely see these questions time and time again.

But while economists and financial commentators everywhere continue to waffle on endlessly about this and continue to make all kinds of bold (and mostly wrong) predictions, we just sit back and smile, safe in the knowledge that we really don't care too much either way.

And if you've managed to take advantage of our ongoing "House Hedge" series, you probably don't either. If you've missed out on it because you aren't on the *Taipan* e-mail list, I'll get to you in a moment.

Hopefully, you're familiar with the "House Hedge" strategy — the series we started running at the end of June, designed to make you money when the housing market goes up or down. We do this by building our investment recommendations around the movement of the Philadelphia Housing Index (HGX) — a basket of 21 of America's top homebuilder stocks — playing both short-term calls and long-term puts.

The "House Hedge" history

To recap for you briefly:

We started with August 555 calls, which we cashed out for 45% gains (although some readers managed to grab more thanks to the fast-moving nature of the HGX).

September calls unfortunately didn't prove to be as successful.

But at the same time, we recommended December 520 puts — the primary component of the play, since our theory calls for short-term housing market gains but a longer-term slowdown. We recommended these puts at US$27.30 and cashed out at US$32 on October 5 — a 17% gain. Not too shabby, considering it's essentially an "insurance policy" and the puts had fluctuated between US$19 and US$33 over the lifetime of our recommendation.

On October 1, "House Hedge" creator Bryan Bottarelli issued two fresh plays on the HGX — the "hedge" on the December 600 Calls (entry price: US$5.70) and "main play" on the March 540 Puts (entry price: US$34.40) in order to capitalize further.

We advised conservative investors to cash out on both plays. At the time, the December 600 Calls traded for US$1.10 — yes, down from our entry price, but worth remembering that this was a cheaper, short-term "hedge" play that provides an insurance policy against our long-term hypothesis that the US housing market is set for a long-term downturn.

The March 540 Puts played true to form. At the time of the sell alert, the last trade on those options was US$63.60 — an 85% gain on the position. But for more adventurous investors not averse to a little more risk, we advised cashing out on just half the positions and letting the rest ride, the theory being that you could ultimately make 100% gains from the basket of December Calls and March Puts.

As of October 19, the collective basket of the December Calls and March Puts were up an impressive 94%. This goes to show that although the recent surface numbers continue to reflect a strong housing market, it's apparent that Wall Street is starting to get nervous about the valuation of these stocks — which is causing the top home builder stocks on the market to get hurt.

Bryan is also working on a fresh series of HGX plays for later this month, which we'll bring you as soon as they're ready. This makes it doubly important that we have your e-mail address, so you don't lose out on potential profits!

** Please see the box on the following page for details.*

over please…

Missed out on any of the *Taipan* "House Hedge" plays because you're not on our e-mail list? Our records indicate that there are many *Taipan* subscribers who aren't on the distribution list to receive critical breaking news updates, new recommendations and sell alerts via our e-mail service. If you have access to e-mail, then you need to get yourself on the list today — otherwise you're continually running the risk of missing out on these important alerts, the weekly Hotline — and a boatload of profits.

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TAIPAN GAINS + UPDATES

The wallet-stuffing *Taipan* trio: 34%, 17% and 31% gainers

by Martin Denholm

We'll get you to the Core Portfolio in just a second. First, however, a few gains and updates to tell you about from our other existing positions:

Cashing in on oil's rise: 34% gains on PTEN

Back in the June 2005 *Taipan* newsletter, Sara Nunnally and I collaborated on oil company **Patterson-UTI Energy Inc (PTEN:NASDAQ)**.

On September 29, based on a four-day rising streak and a new 52-week high of US$36.44, Sara decided to take some profits and run, recommending a sell on half the position for 34% gains at or above US$36.15.

Bird flu flies back into the headlines: Are we "dangerously unprepared?"

San Diego-based vaccine-maker **Vical (VICL:NASDAQ)** was Erin Beale's pick back on June 29, 2004 at US5.75.

With avian bird flubeing the next fear gripping the world, this is a company primed to take advantage.

United Nations' estimates puts up to 150 million people at risk from a potential pandemic if it spreads.

According to reports: "Roughly 140 million birds worldwide carry the virus. It moves from wild to domestic birds, which then can infect people with whom they come in contact. So far, the virus has not "jumped" species, meaning that humans have only become infected through contact with a bird carrying the virus. However, if mutations occur that allows it to spread from person to person, it could become unstoppable. And because the virus originated in birds, humans have no immunity to it."

Trouble is...the United States is "dangerously unprepared" to respond because the "public health infrastructure is weak and because advance planning has been needlessly delayed", according to a letter sent to President Bush. In fact, he's so concerned that he's already given thought to military-enforced quarantines if the disease shows up in America. The government is set to spend billions to stockpile drugs to thwart the threat.

Birds bashing Europe

In Europe, bird flu has already spread from Asia to Turkey and Greece. There were 12 cases in Romania and a case in Britain. Suddenly, European Union ministers have realized that they've got a new battle on their hands, besides stimulating economic growth. But despite issuing a statement, saying the virus poses a "global threat" that requires international action, they, too, are unprepared.

European Health Commissioner Markos Kyprianou says "most of the 25 EU governments lack sufficient stocks of anti-viral drugs designed to boost resistance to the common flu." The 25 nations have ten million flu vaccines. But there are 500 million people throughout the region.

This is another example of the EU looking sluggish and lacking in foresight. After all, this issue first cropped up in 1997, when the H5N1 strain killed 60 people in Hong Kong. Holland also experienced a nasty bout of the H5N7 strain in 2003 that resulted in the culling of 30 million birds and economic losses totaling 500 million euros.

Two-pronged profits for vaccine-maker Vical

Vical is one company currently working on a bird flu vaccine under a grant from the National Institutes

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over please…

of Health and we think it could grab some upward momentum from the avian bird flu epidemic.

The company also benefitted from news that its experimental HIV vaccine has entered the Phase II trial stage.

Vical's DNA delivery technology could also come into high demand as NIH begins trials with a naked DNA flu vaccine which will use converted core antigens along with envelope antigens. And since it focuses on DNA delivery technologies to prevent and cure serious infectious diseases in both children and adults, it's well on its way to making a name for itself among the big pharma players.

But on October 11, Erin was unable to ignore Vical's big run-up from US$5.37 to around US$6.72. Fearful of profit-taking, she recommended selling half the position for 17% gains over the entry price, while holding the rest for potentially bigger things to come. It was a great call, as the stock sank some 20% the next day.

Fire up the media player for a real nice chunk of change

We move now to **RealNetworks (RNWK:NASDAQ)** — my pick from the March 2005 *Taipan* issue.

Having closed October 11 at US$5.74, the stock enjoyed an amazing spike all the way up to a 52-week high of US$8.50 on the back of an announcement that Microsoft will pay the company US$761 million to settle an antitrust lawsuit.

At the closing bell, it hit US$7.70 — up around 34.1% for the day. As of October 24, the stock was still holding steady around US$8.22 — handing you a 31% gain if you're still holding shares.

Looking forward, the deal paves the way for new business ventures between RealNetworks and Microsoft, with RealNetworks gaining access to Microsoft products that will help it enhance its RealPlayer and Rhapsody services. In addition, Microsoft has pledged to promote RealNetworks' products on its MSN website. Continue to hold. ■

CORE PORTFOLIO

STOCK RECOMMENDATIONS	BUY DATE	BUY PRICE	CURRENT PRICE	TOTAL GAIN (excluding dividends)	CURRENT DIVIDEND & YIELD	INVESTMENT RECOMMENDATION
REAL WEALTH						
AMERICA FIRST APARTMENT INVESTORS (APRO)	10/1/04	$11.58	$13.76	18.8%	$1 PER SHARE/7.4%	BUY BETWEEN $11.50 AND $12.50
ANTHRACITE CAPITAL INC (AHR)	11/29/04	$11.78	$10.72	-8.8%	$1.12 PER SHARE/10.6%	BUY UNDER $12
ENERGY PLAYS						
SOUTHERN COMPANY (SO)	8/2/04	$29.20	$34.18	17%	$1.49 PER SHARE/4.4%	HOLD AT CURRENT LEVELS
SUNCOR ENERGY (SU)	8/31/04	$27.80	$50.35	81.1%	$0.20 PER SHARE/0.4%	HOLD AT CURRENT LEVELS
DAWSON GEOPHYSICAL COMPANY (DWSN)	5/3/05	$19.70	$26.33	33.6%	—	BUY UNDER $20
TECHNOLOGY PLAYS						
FARO TECHNOLOGIES (FARO)	5/1/05	$25.09	$19.68	-21.5%	—	BUY UNDER $25
SYMANTEC (SYMC)	5/3/05	$18.91	$22.73	20.2%	—	BUY UNDER $20
SINA CORP (SINA)	8/23/04	$20.10	$25.42	26.5%	—	HOLD AT CURRENT LEVELS
SOHU.COM INC (SOHU)	8/23/04	$15.64	$15.59	-0.3%	—	HOLD AT CURRENT LEVELS
SPECIALTY POSITIONS						
PHARMACEUTICAL HOLDRS (PPH)	5/1/05	$75.00	$67.24	-10.3%	—	BUY AT CURRENT LEVELS
iSHARES RUSSELL 2000 GROWTH INDEX (IWO)	7/22/05	$68.85	$65.78	-4.4%	—	BUY UNDER $69
COMPANHIA SIDERURGICA NACIONAL (SID)	8/31/04	$15.45	$18.65	20.7%	$3.05 PER SHARE/17%	BUY UNDER $17
SPACE DEV INC (SPDV.OB)	3/28/05	$1.77	$1.51	-14.7%	—	BUY AT CURRENT LEVELS