



TAIPAN

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COURAGE

PROFITS

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Blood-and-Guts Investing:

Market turmoil spells profit opportunity for intrepid Taipans!

by J. Christoph Amberger

The terror attacks of September 11 have turned out to be the single greatest profit opportunity in 2001.

Let me pause here for a moment.

Because I fully understand what you may be thinking now. How can I say this out loud? Is it socially acceptable—let alone responsible!—to even entertain such thoughts? Never mind typing them out in my monthly letter to you...

To be honest, I would agree with any moral objection you could possibly muster in response to the statement above. We were as shocked and appalled as anyone at the brutality and ruthlessness of the mass murders committed by Bin Laden and his ilk.

But in the 13 years since the Taipan team began roaming the world for profitable investment opportunities, we have encountered one fundamental human truth again and again.

It's Baron Rothschild's old adage that "the time to invest is when blood is running red in the streets."

It has never been more difficult to act on this insight than in the aftermath of September 11. The attacks struck too close to home... and didn't afford the luxury of safe distance and emotional detachment that comes with crises on the other side of the globe.

So it is only with grim satisfaction that Taipans can look at their post-terror portfolios.

Blood harvest

In the week that followed the collapse of the twin towers, one thing became painfully obvious: with markets in turmoil all over the world, time was of the essence.

Or, more to the point, timeliness.

Last January, the Taipan team decided to supplement our monthly briefings with a daily email letter to our subscribers, the 247profits e-Dispatch. We've urged you all to sign up for it in every issue. And in September, this new service allowed us to safely steer our members through the upheaval.

With our updated price alerts, we were able to fully apply our philosophy of Right-Time Investing, with profits such as

- 6%, 80% and 40% on Taiwanese chip maker **TSM:NYSE**
- 35% on **Alliant (ATK:NYSE)**
- 16.6% on **Lockheed Martin (LMT:NYSE)**
- 84% on **Visionics (VSNX:NASDAQ)**
- 10% on the **Brazil Fund (BZF:NYSE)**
- 22% on **Pohang Iron and Steel (PKX:NYSE)**
- 11% on **Aramex (ARMX:NASDAQ)**
- 18.75% on **Toyota (TM:NYSE)**, and 25% on **Honda (HMC:NYSE)**.

Since our last issue, we took

(over, please...)

TAIPAN

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Right-Time Profits of 56% on our **Jones Soda (JSDA:OB)** play, 24.26% on **Ceradyne (CRDN:NYSE)**... and—after taking 53% in September—we reprised our success with our Kazakh oil speculation, **Nelson Resources (NLG:Toronto)**, with two more profit raids that netted 33% and 48%, respectively.

Vengeance is ours

In retrospect, we can see that the crumbling of the markets in the wake of September 11 merely accelerated trends that were already at work. It squeezed all the remaining air from an already deflated market, provided a hard (if temporary) bottom for stock prices, and created some stunning entry opportunities... not only for short-term turnaround plays... but also for second positions in stocks we've been holding for a while.

Stocks like **Jakks Pacific (JAKK:NASDAQ)**, which we entered August 1 at US\$18.90. In our e-Dispatch, we encouraged you to take a second position on September 17 at US\$12.50. As I write this, the stock is up 21% over the August level... and an astounding 83% over the September 17 price!

Or take a look at Chinese automaker **China Brilliance Automotive (CBA:NYSE)**. As of this writing, we're up 70%.

Turkish delight

But one of our most spectacular success stories in the last eight weeks was Turkish cell phone company **TurkCell (TKC:NYSE)**.

Battered by an unforgiving recession and debt problems, the Turkish markets were looking as mangy as an undernourished mutt from the pound when *Taipan* editor Christian DeHaemer recommended you buy it back on August 27. Back then, the stock traded for an adjusted US\$9.

On September 17, we recommended you buy more. Which you could do at levels anywhere between US\$5.90 and US\$7. And right now, my monitor indicates that TKC is currently trading for US\$15.95... which means you made profits of 77%-170% on your holdings... not counting the 10% "stock dividend" shareholders received when the ADR was rebundled at 10:1!

The captain of coin

In 2001, Christian DeHaemer's *Taipan* picks also resulted in gains of 31.7% on **South African Breweries (SAB:London)**, 41.26% (in one month!) on **The Medicines Company (MDCO:NASDAQ)**, 34.5% on Indonesian telecom giant **TLK:NYSE**, and 24.34% on Indian pharma fakir **Cipla**—which also makes dirt-cheap Cipro knockoffs.

But few of you may know that Chris DeHaemer is also the brains behind the *Red Zone Profits* service... where he and his team have turned 64 recommendations into 48 winners over the last 52 weeks (average time held: 28 days!)... for impressive net gains of 32.4%.

His system reacts organically to every changing investment environment. He writes:

"The system works because it tells us to invest countercyclically—so when most market professionals are selling, we are buying... and vice versa.

"I can prove it.

"Since October 12, we've had 16 winners out of 16 picks, including six triple-digits returns. These include **SURE (119%)**, **NVDC (147%)**, **ARTG (170%)**, **ICGE (118%)**, **KANA (115%)**, and **NAVI (206%)**.

"Our system involves newly listed companies... and certain cyclical behaviors these companies exhibit as they develop through various predictable stages toward maturity.

"We call these stages the 'Red Zones.'

"The most profitable aspect of our system at this point in the market cycle is *Red Zone III*. You could call it the value zone.

"Red Zone III identifies companies whose IPO was two to four years ago. Right now, there are more than 500 of these companies. Many of them are heading straight into Chapter 11. But there are a few—and more than you might think!—that have husbanded their great infusions of IPO cash from the glory days of the bubble.

"Believe it or not, many of these companies are profitable! And they're trading for less than cash, have legitimate business plans, and cost less than US\$5 a share. Red Zone III finds and buys these

companies when no one else wants them.

Varsity Books

“For example, I put out a recommendation on our website and in our daily direct email, *The Capitalist Pig*, for our readers to buy **Varsity Books (VSTY:BB)** at US\$0.43 a share. Less than two months later, I recommended that they sell it above US\$0.77 a share.

“Because I knew a few things about this company that no one else did.

“For one, they had turned cash-flow positive last spring, they were valued by the market at less than half of what they had in the bank, and insiders had been buying long and strong.

“Let me tell you a secret.

“If a company is cash-flow positive and trading at less than cash, you should buy it. A dollar equals a dollar equals a dollar—there is no better or simpler means of valuing a company.

Women First

“Like I said above, the *Red Zone* system is countercyclical. Back in March, our IPO specialist Siu-Yee Ng recommended you buy **Women First Healthcare, Inc. (WFHC:NASDAQ)** at US\$2.50. Seven weeks later, our readers closed out for a 120% profit.

“After debuting back in 1999, Women First Healthcare began to lose steam... and hit rock bottom

in 2000.

“But then it began to trend up. You see, at that point Women First Healthcare was on its own after its first year as a public company. Analysts who were once involved with the IPO were no longer pumping the stock. And this is exactly where we look for value plays, in Red Zone III.

SureBeam jumps 119% in 15 days—the secret to Red Zone II

“A few weeks later, Red Zone team member Ian ‘Hot Hand’ Cooper put out a buy on **SureBeam (SURE:NASDAQ)** using the same instant email and website alert method. No one knows better than we that time is money. We bought SureBeam at US\$5.10 on October 2, and sold it two weeks later for US\$11.15—a 119% gain.

“Again, we knew it was a fantastic buying opportunity because SureBeam was unlocking a number of shares, which created an artificial selloff.

“You see, insiders aren’t eligible to sell shares until six months to a year following an IPO. And when they can, they do! This creates a highly profitable scenario. We call this *Red Zone II*. And it works time and time again.”

In this issue we’ll give you one such company. Also—crammed into your *Taipan* envelope (go get it out of the trash)—you’ll find all the details on how the *Red Zone* system can work for you. Read on, intrepid investor, read on!

RED ZONE PROFITS

Make 178% on this online discounter: It makes money when shoppers avoid the mall!

by Ian Cooper

Finding cheap stocks with monumental growth prospects amid a sea of dot-com failures isn’t the easiest thing to do. But we’ve uncovered a stock that insiders like George Soros have been buying like it’s going out of style.

More than 8.4 million shares have passed through many hands in the last 10 months. Add to this that the company plans on turning a profit by next year, and you could be sitting on a fat gain in the next few months.

Bluefly.com

How can I say this and still be able to look my wife in the face:

I’m a guy. I don’t get much thrill out of shopping for

clothes. My wife has to drag me into department stores



to rid my closet of my precious holey jeans.

But if my wife is willing to help me shop for clothes on the Net, that won't be a problem—especially at the prices I just found. There's a silk twill tie for US\$64.95. That's 48% less than the regular price of US\$125. Not bad at all. Kids' clothes, which usually cost a small fortune, can be bought at 90% discounts.

I'm talking about **Bluefly.com (BFLY:NASDAQ)**.

Created by founder and CEO E. Kenneth Seiff, Bluefly.com is an Internet retailer of designer fashion labels. It sells over 450 brands of designer apparel, fashion accessories, and home products at discounts that range between 25% and 75% off comparable retail prices.

In 2000 alone, BFLY offered over 55,000 different items for sale... in categories such as men's, women's and children's clothing and accessories, as well as household goods and supplies.

It is open 24 hours a day, 365 days a year. And if you don't really like what you ordered, you have 90 days to return it. The best part: BFLY includes a pre-addressed, postage-paid merchandise return label in every box.

Check out those figures!

Unlike many retailers, Bluefly has actually profited from the U.S. economic downturn. The weakened retail environment has actually allowed Bluefly to acquire top designer merchandise at an even lower cost. This, in turn, brings in more customers eager to buy products at bigger discounts.

While top-of-the-line retailers like Saks Fifth Avenue were canceling fall shipments and scaling back new orders, Bluefly, which sells apparel by the likes of Prada and Calvin Klein for up to 75% off, was snatching up a lot of the unwanted merchandise.

As a result, Bluefly reported that its loss for Q3 narrowed by about 49% from a year ago, making it the fourth consecutive quarter of lower losses. That's impressive for any dot-com that has withstood the shakeout of the past two years.

Net loss for the quarter ended September 30 dropped to US\$2.4 million, or 33 cents a share, from US\$4.9 million, or US\$1.01 a share in the year-ago quarter. Sales increased 48% to US\$5.1 million from US\$3.5 million a year ago, driven in part by rising sales to repeat customers and growth in average order size to US\$144 from US\$108. Not too shabby for an online retailer!

The cost of acquiring new customers fell 59% to US\$23.73 from US\$57.45 in the third quarter of 2000. Also contributing to the loss reduction was a 30% drop in sales, marketing and fulfillment expenses, and an 11% decrease in general and administrative expenses.

But wait, there's more. In its effort to reach profitability by the end of 2002, Bluefly has been splitting the savings between its customers and itself. The plan is expected to give the company an additional 104% increase in gross profit, a 20% reduction in operating losses, and a 14% increase in gross margin.

Strength in numbers

Bluefly's competitors, including **Big Dog Holdings (BDOG:NASDAQ)**, **Fashionmall.com (FASH:NASDAQ)**, and **Cache Inc. (CACH:NASDAQ)**, trade at much higher valuations. Compare BDOG's market cap of US\$27.5 million, FASH's US\$15.6 million and CACH's US\$31.8 million to BFLY's US\$6.9 million, and the growth opportunities seem endless.

Weak economic growth, coupled with layoffs and higher levels of consumer debt, should help Bluefly in the long term. Even in this tough economic environment, BFLY is still acquiring the top designer brands at lower costs.

In the longer term, the demographics for apparel sales should be strong. Younger populations entering high school, college and the work force are always looking for bargains.

What, you think Mom and Dad are going to keep buying clothes for them their whole lives? As if. Bluefly has already tuned in to those spoiled kids with top-of-the-line merchandise and accessories.

Bluefly is a strong buy under US\$2.00—it's trading at US\$1.77 as I write this—with a long-term price target of US\$5. Contact: 42 West 39th Street, New York, NY 10018, tel. 212-944-8000, fax 212-354-3400.

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