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TAIPAN

FORESIGHT COURAGE PROFITS

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Christmas comes but once a year—like this batch of winners. Get in now to maximize your gains this holiday season!

Martin Denholm
Executive Editor

If the annual grind of the holiday season is beginning to get you down, relief is at hand. And profitable relief at that! So why not take a break from the seemingly endless planning and shopping and kick back for a few moments.

Around this time of year, many of us here like to rummage through Santa's sack in hopes of pulling out a few festive moneymakers. After all, seasonal plays are one of the easiest and strongest ways to turn a profit, since one can predict with a good degree of confidence the stocks that tend to fare well at certain times of the year. And if the market does most of the work for us, who are we to argue?

Once again, this strategy falls within the flexible and lucrative parameters of the *Dynamic Market Theory,* which states that there's always a chance to pick up some relatively easy profits somewhere—regardless of what the broader market is doing.

Among this month's profit opportunities we have a Christmas triple play—three chances to take profitable advantage of stocks that should receive a decent holiday bounce.

In actual fact, we've already started collecting profits from the holiday season, as you'll see on page 10 with Tony Mullen's winning play on Nordstrom options. This netted *Taipan* readers gains of 36% and higher.

All that remains is for me to thank you for sticking with us in 2005 and to wish you and your family all the best for the holiday season. On behalf of the entire Taipan team, have a happy and healthy Christmas and a very prosperous New Year. And please stay tuned for many more profitable opportunities in 2006.

This Mexican "Blue Chip" company could deliver a whopping 847% return as a 15-year-old 80% tariff is lifted

by Erin Beale

Even before Hurricane Katrina ravaged the Gulf Coast, the US was in the midst of a dire shortage of cement. But now, Mother Nature's fury will force massive rebuilding efforts across Louisiana, Mississippi and Alabama. Reconstruction spending could top $200 billion.

According to Reuters, "Billions of dollars marked for rebuilding will likely boost profits for concrete companies."

But there's one major problem. Cement, the key building ingredient, isn't reaching US shores. And without it the Gulf Coast will never be rebuilt.

And America isn't the only one desperate for it. China's also has an insatiable appetite for cement, as projects like roads, buildings, dams and the 2008 Beijing Olympic Games are all underway.

American production facilities are maxed out. The US has long imported as much as 25% of its own cement supply, mostly from China. But Chinese facilities can't even keep up with domestic demand, let alone the rest of the world's. And the extra demand is driving prices up and creating a worldwide shortage.

South of the border

Just below the US borders there are mills operating at full capacity, producing vast amounts of coveted cement—all of it is easily transported in just a matter of days by barge or rail.

over please…

China is already getting some of its additional supplies from this country. So with a new house being built on every square foot of usable land and a massive area in need of wholesale rebuilding after the devastating hurricanes, why isn't the US snapping up tons of the stuff like there's no tomorrow? In a word: tariffs.

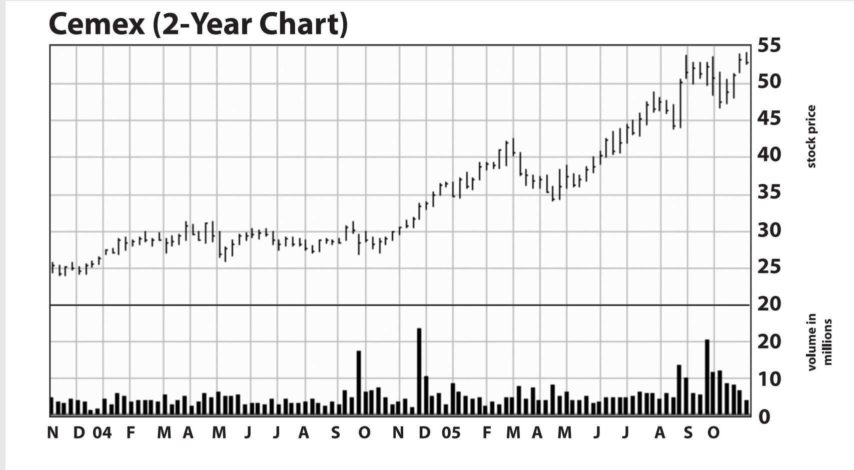
A 15-year-old 80% tariff on Mexican cement imports, to be exact—one that threatens to halt construction across the United States over the next few months. In fact, the situation is so bad that experts from the Associated General Contractors of America are practically on their knees begging the US Department of Commerce to repeal the tax before the dire shortage becomes an absolute disaster.

With the political pressure on, this undervalued Mexican company could flourish if and when this tariff is repealed.

1990 scandal gives way to 2006 promise

Although the US and the rest of the world have never seen such an extreme need for cement before, demand for the material is actually nothing new. Throughout the 1980's, the US frequently imported cement from Mexico when China couldn't ante up. But in 1990, the US government accused the Mexican cement industry of "dumping"cement in America—deliberately selling it for less than it cost them to produce it and thereby stealing business from domestic cement companies. The Mexicans were hit where it hurts: the US levied an 80% "anti-dumping" duty on cement imports from Mexico.

Cemex SA de CV (CX:NYSE) was at the heart of the 1990 cement scandal. But times have changed. Ironically, it now owns a Houston-based cement company, making it not only the third largest cement producer in the world, but also the second largest American producer. If the company was dumping cement in the US back then, it certainly wouldn't repeat the practice now, since that would dilute its own US business.



While you may not have heard of Cemex before, in Latin America the company is as ubiquitous as Coca-Cola or Rubbermaid here in the US. In fact, a 2004 recent survey voted Cemex the best-known brand in Latin America, putting it ahead of names like Bacardi and Corona.

Worldwide presence + fierce demand = stellar profits

It's a beautiful thing for an investor when the company you own has a multinational presence and its product is in one of the strongest growth areas of the market. Cemex reaches a wide global market in more than 50 countries besides Mexico and the US. These include Spain, Costa Rica, Thailand and Egypt.

But all that pales when demand is so high that the company can basically name its price.

Look at these remarkable numbers from 2005: Second-quarter net revenues swelled 125% to US$4.4 billion compared with Q2 2004. Operating income for the period jumped 60% to US$751 million. Free cash flow grew 56%, reaching US$693 million.

Third-quarter numbers were even more impressive. Cemex just about doubled its net profit thanks to higher sales following its US$5.8 billion acquisition of cement maker RMC Group. While its net profit of US$675 million was lower than forecast, it was still up from last year's US$361 million figure. Revenue soared 110% to US$4.29 billion. Cemex's Venezuelan division reported that net profit for the first nine months of 2005 surged 177% from the same period last year.

All that leads to a gross profit margin of 43% and an operating margin above 22%. Its closest competitor has half the margins with about half the operations and also a much higher P/E. That's why Cemex is able to pay a tidy dividend, with an annual yield of 3%.

In fact, when you check out Cemex's financials, there's really not much to dislike about the company. For a start, it has low P/E and PEG ratios. Its trailing P/E is 7, the forward P/E is 9 and the PEG ratio is 1.05.

Given these numbers, fair value for Cemex would be roughtly US $85—a 60% premium over its current share price around US53.

And here's the kicker: These revenues are before you take into account the post-hurricane rebuilding efforts and the more than US$200 billion that will be poured into the Gulf Coast restoration. Add in the worldwide cement scramble and Cemex has access to one of the biggest boom markets in history.

Fundamentals as strong as cement

But the real catalyst could be a US decision to suspend the outrageously high cement tariffs at a time when the material is needed most—a move that many economists say is virtually certain. And if you play the stock right, the stock could put as much as 847% gains in your pocket while limiting your downside risk. Here's how to do it:

STOCK PLAY: Buy shares of Cemex SA de CV (CX:NYSE) under US$58.

OPTIONS PLAY: For maximum profit potential, I'm also recommending LEAPS options. Buy the April 2006 Cemex 50 calls (CXDJ.X) under US$10 and the more speculative April 2006 Cemex 55 calls (CXDK.X) under US$6.50. There could be as much as an 847% gain if the underlying stock launches by US$32 to US$85.

DYNAMIC WEALTH

With US$1 billion in order backlog this year, this little-known military technology stock is flying

by Alex Chinn

As we reach the end of 2005, the war in Iraq drags on and the death toll steadily increases.

But where are all the new military technologies? The US pours billions of dollars a year into defense research and new, cutting-edge technologies, yet very little of it seems to find its way onto the battlefield. Soldiers still wear the same body armor they did years ago and carry the same weapons as in Vietnam.

But day after day I read about new military technologies, ranging from the far-out (focused laser rifles to blind enemies) to the logical (heads-up displays linked to rifle-top cameras) to the basic (better body armor).

Some recent advances that have made their way to the front lines include unmanned aerial drones, which are launched from the ground and can cruise at altitudes from a few hundred to 30,000 feet. Robots are also being used more often, usually to detect and defuse bombs from a distance. There is also a model designed to enter and explore caves before servicemen do.

The scourge of the US Forces…

But there's another breakthrough product currently on the Iraqi battlefield. It gets very little press and has been largely shrouded in secrecy. Yet it's an integral part of military efforts and one of the few effective countermeasures against the insurgents' most deadly weapon.

Most American casualties in the Iraq war result from bombs. Some of these are delivered by suicide bombers. But the majority are caused by IED's (improvised explosive devices). These run the gamut from Cold War-era artillery shells to custom-made armor-piercing copper cylinders.

IED's are especially dangerous because they're hard to detect. Insurgents plant them along major roads, hiding them inside piles of rubble or garbage, in the rims of burned-out cars, or just about anywhere else you can imagine. American troop carriers are notoriously ill armored. So ill-armored, in fact, that servicemen confronted Donald Rumsfeld with the fact that they've been forced to cover their vehicles with scrap metal. So you can see why IED's are the biggest threat to our troops. It's not like the US military can inspect every inch of each sketchy-looking road before passing.

To make it worse, the enemy is getting smarter at using IED's. IED's were once nothing more than a plastic bottle filled with diesel fuel and rigged with a basic trigger. In most cases, someone had to operate the bomb from nearby. This meant that the culprit was often quickly apprehended. But today, IED's can be triggered remotely from greater distances.

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The technology combating the insurgents' favorite weapon

That's where **EDO Corp. (EDO:NYSE)** steps in. The company provides the military with key systems called Warlock Red, Warlock Green and the Shortstop Electronic Protection System.

These systems are basically radio frequency jammers. Both individual soldiers and vehicles can carry them. Each jammer provides a cone of radio noise so no incoming signal gets through. That means an insurgent cannot trigger a remote detonation if a Warlock Green or Red is close enough.

The Shortstop Electronic Protection System causes mines and artillery, or any device with a radio frequency proximity fuse, to detonate prematurely.

Granted, these devices aren't foolproof. But they're the most effective tool the military has against IED's and other explosive devices. Such is their importance that they've been fast-tracked for further production and deployment. Right now, only high-risk troops such as bomb squads carry them. But eventually they will become standard issue for all military personnel, lowering the death toll. EDO also has other products, such as various communications systems. It also manufactures radio and GPS anti-jammers.

Military prowess reflected in balance sheet

You can see evidence of EDO's success in its balance sheet. Third-quarter earnings were impressive, with revenues jumping 35.4% to US$175.9 million and net income rising 43.2% to US$9.8 million. Over the first nine months of 2005, total revenue climbed 22.2% to US$448.5 million, with net income rising 26.4% to US$18.8 million. The company expects to meet or exceed its full-year earnings projections and the stock trades at a reasonable P/E of around 20. It earns just under $1.50 a share.

If you look at the revenue breakdown by product, you can see that the Warlock systems are playing a big part in that success. The company's quarterly report says, "The largest contributor to revenue growth during the quarter was the accelerated delivery of electronic force protection systems."

And get this: EDO's current order backlog stands at US$533.9 million. That's more revenue than was earned during the first nine months of the year! The backlog is not even a complete tally, either. Because the Warlock systems were fast-tracked, many will be produced before formal contracts are finalized. Similarly, contracts that have been secured but haven't had funds appropriated for them, as well as contracts from unexercised options, aren't included in the backlog tally. If they were all included, the total backlog would be over US$1 billion.

Something else on the balance sheet that piqued my interest was that EDO's Communications and Space Products division is rapidly accelerating its revenues. It raked in US$129.8 million over the first nine months of the year—a 179% rise over the same period last year. Its profits jumped 848% to US$15.5 million in that time.

Life-saving technology produces portfolio-fattening stock

Although EDO is a rapidly growing company providing crucial, life-saving technology to American soldiers to fend off the deadliest weapon the insurgents possess, you're not likely to hear about it on CNN.

But don't let that bother you. While it might not be flashy, front-page news, it's one of the few military contractors whose its recent innovations have found their way to the battlefield. Its technologies are fast becoming an integral part of modern warfare and are helping to stop the main source of American military fatalities. I expect to see EDO flourish in the coming years, and a lot of American soldiers will be coming home unharmed thanks to it.

Buy EDO Corp (EDO:NYSE) under US$30. ■

SEASONAL PROFIT OPPORTUNITY—PART 1

As consumers add shoes to their Christmas lists, add this winning stock to your portfolio

by Martin Denholm

The sights. The sounds. The smells. The atmosphere. Oh, the festivity!

Um, yeah… not to be all Ebeneezer Scrooge-like or anything, but for me, this time of year is more like "Oh, the humanity!" While I don't exactly hate it, I can think of better times. And if you're anything like me, while the actual act of gift-giving is pleasurable and rewarding, the process of getting to that point is arduous to say the least.

By now, you're probably right smack in the middle of your annual gift-buying spree—which means the annual scrum through the stores, getting up close and way too personal with way too many strange people.

If you don't like the wolf-like hunting-in-packs mentality of that, then I have something to ease your pain, just in time for Christmas: Hunting for juicy gains in an entirely different and more profitable way with this month's recommendation. And rather appropriately, it's related to the whole Christmas theme.

Wolverine Worldwide (3-Year Chart)

Fancy slipping into something comfortable?

While you may not have heard of the company **Wolverine Worldwide (WWW:NYSE)**, I'm betting you've heard of its renowned brands. Perhaps you're wearing some of their stuff right now—a comfortable pair of Hush Puppies, for example, or a pair of their Merrell boots.

The company also manufactures a range of outdoor apparel under the Wolverine umbrella, include Heritage, Outdoor and Wolverine Footwear.

But Wolverine's primary focus is on shoe making. Yeah, I know—it's not exactly the sexiest industry out there. But ask yourself what you're looking for from your investments? A wild, stomach-churning, volatile ride that gives you sleepless nights? Or a solid, profit-producing investment that you can rely on from a company growing at a healthy double-digit rate per year?

Well, just like your favorite pair of shoes, this is a stock you can rely on. After all, we all wear shoes. And you know what that equates to? Yep, my favorite phrase when looking at a stock and its prospects: a lot of "repeat business" and a steady stream of cash. Wolverine is faring pretty well in that department, with US$1 billion in revenues and US$97.3 million in cash from operations over the past 12 months.

On top of that, of course, Wolverine is a seasonal play. Boots and outdoor wear will most likely be among the most popular items on many Christmas lists this year.

So why should you dance with the wolverine?

Well, for starters, how does 15 straight quarters of record revenues sound?

That's what Wolverine achieved during its third quarter, racking up US$279.1 million, a 7% increase over Q3 2004. That equates to a 12% rise in profits to US$24.6 million and a 13.5% climb in earnings per share—to US$0.42, compared with US$0.37 a year earlier.

While the Wolverine Footwear Group merely equaled its Q3 2004 results, the overall company benefited from double-digit growth in all other divisions. It also scooped in a big chunk of revenue from abroad, with international sales jumping 17%.

Not bad at all. As chairman and CEO Timothy O'Donovan says, "With strong third-quarter results and an order backlog increase of 19%, we are increasing the company's 2005 earnings-per-share estimate […] to range from US$1.26 to US$1.28." That would maintain its goal of annual double-digit EPS growth over the next three to five years.

Not satisfied, Wolverine is shooting for higher financial goals in 2006. It's set to branch out by launching a new apparel line linked to its Merrell business. It's also poised to expand on its existing partnerships with Federated Department Stores, Caterpillar and Harley Davidson. How? Well, with US$47.8 million in cash on the books, it will spend US$4.5 million on collective growth efforts and consequently expects earnings per share to come in between US$1.38 and US$1.44.

Taipan retail update:

Speaking of retail recommendations, here's an update on a couple of my other plays:

ABERCROMBIE & FITCH (ANF:NYSE)

STOCK PLAY:
ENTRY DATE/PRICE: 11/24/2003; US$28.83
CLOSED 1st HALF/EXIT PRICE: 11/4/2004; US$42.17
FIRST HALF GAIN: 46%
CURRENT 2nd HALF GAINS: 113%

OPTIONS PLAY:
ANF SEPTEMBER 60 CALLS (ANF IL)
ENTRY DATE/PRICE: 8/17/2005; US$1.30
EXIT DATE/PRICE: 8/20/2005; US$2.30
TOTAL GAIN: 77%

PACIFIC SUNWEAR OF CALIFORNIA (PSUN:NASDAQ)
ENTRY: 1/5/2004 (2004 Taipan Forecast Issue)
ENTRY PRICE: US$20.96
CURRENT PRICE: US$26.55
CURRENT GAINS: 26.7%

See Page 10 for full details...

Want value? You got it

So who are Wolverine's main competitors? Here are just a few big names you might recognize: Timberland, Nike and Reebok. Besides growing third-quarter sales by 7%, compared with the industry average of minus 2%, Wolverine also boasts a lower P/E ratio than the average—17 versus 21.

Its stock is considerably cheaper than those of all three companies, and it also offers an annual dividend of 26 cents per share (1.2% yield). Wolverine is ranked 73rd on Forbes's "100 Best Mid-Cap Stocks" list for 2005. End 2005 by slipping this stock into your portfolio as a play on holiday retail sales. I think you'll find it a pretty comfortable fit.

Buy shares of Wolverine Worldwide (WWW:NYSE) under US$22. ■

SEASONAL PROFIT OPPORTUNITY—PART 2

Like taking candy from an fat kid: Cash in on "irrational exuberance" with this traditional holiday winner

by Tony Mullen

Around this time of year, many consumers' wallets are probably stretched pretty thin and the idea of freeing up extra cash for investing can be a tall order. So wouldn't it be nice to know that there's at least one tried-and-true seasonal stock in which you can invest safely and make some fat profits in the process?

I say "fat" because there's no guarantee easier to make than millions of Americans putting "Lose Weight" at the top of their New Year's resolutions list. With good reason, too. The Centers for Disease Control estimates that a massive 64% of the US population is overweight. And it's estimated that some 1.7 billion people worldwide are at risk of serious health problems due to obesity. That's some market. And if there's one company that leaps out at you as the leader in helping people across the world shed the flab, it's **Weight Watchers International (WTW:NYSE)**.

Created almost four decades ago, the company has naturally experienced several changes over that time.

One of the biggest came back in 1999 when parent company H.J. Heinz sold it off to an overseas private investor group, Artal Luxembourg. Since then, Artal has reduced its interest in WTW to a 54% ownership stake. In addition, Weight Watchers shifted its business model quite noticeably several years ago, capitalizing on the benefits that dieters derive from behavior modification and the use of support groups. This is much more sustainable, as evidenced by the company hauling in 61% of its total 2004 revenue from hosting weekly weight loss meetings in both company-owned and franchised locations. Product sales account for 26% of revenues, while online subscription fees for WeightWatchers.com contribute 6% of the total. The remainder (7%) comes from royalties and other income.

> ***...if there's one company that leaps out at you as the leader in helping people across the world shed the flab, it's this one***

Surprisingly, Weight Watchers no longer generates much revenue from sales of its prepackaged frozen entrees. But no matter. The success of its current business is reflected in the company's strongly performing stock.

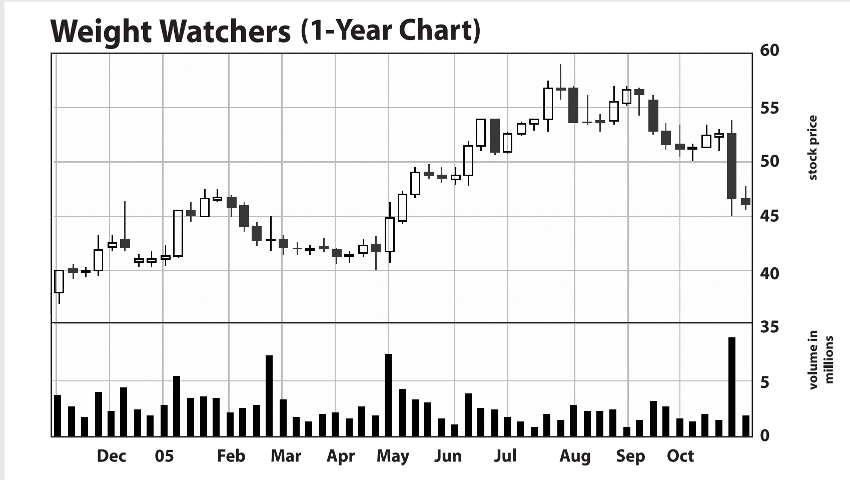
Let the dieters slim down while you fatten up on solid end-of-year momentum

Currently trading down around US$46.07 after the market trimmed some value off the stock following a less than meaty earnings report, you now have a great entry point and a chance to profit when it refills the gap (as you can see from the chart). The 10-month moving average has crossed above the 20-month and the stock should continue to enjoy positive momentum for the remainder of the year. And as the cycle of holiday overindulgence leads to yet another round of guilt, it should rise even further.

As always, the mainstream financial media will latch on to the idea and highlight WTW as the stock to own for the New Year. But you'll be in ahead of the crowd so you can let it generate some gains for you.

Buy Weight Watchers International (WTW:NYSE) under US$50.25.

Now, of course, if you'd rather make your money from people eating rather than dieting, you could always try this fat IPO for size.



The end of year "Burrito Run": Get ready to gobble up shares as this tasty IPO hits the Street

Baja Fresh or Chipotle? In the investment world, there is one clear winner. And I'll tell you why.

During the twelve years that I lived in a Southern California beach town, Baja Fresh and Chipolte were among the throng of burrito businesses vying for customers on the triple trend of America's never-ending quest for new food choices, the move towards healthier menu options, and the advantage of good food served fresh, fast and cheap.

The crowds around both joints led me to believe that either place would probably make a good investment if they ever decided to fund expansion with an IPO. Instead, both gave up their independence, with Baja Fresh selling out to Wendy's (WEN:NASDAQ) and Chipotle falling under the golden arches of McDonald's (MCD:NYSE). Both purchasers realized that they couldn't beat the up-and-coming regional food chains, so they did the next best thing: they bought them.

So who won the burrito battle?

Two strategies. One clear winner.

Wendy's bought out the founders and owners of Baja Fresh and instituted their own management team and operational style. They expanded strongly but stumbled when they went too far, too fast beyond their regional stronghold. Since acquiring the chain, average sales per outlet have dropped from US$1.5 million to $1.2 million. The company halted expansion at 295 units nationally. In fact, Wendy's actually closed around fifteen Baja Fresh units last year due to poor performance.

On the other hand, McDonald's took a decidedly hands-off approach. The founder of Chipotle is still with the company, as is most of his original management team. McDonald's also poured money into the burrito company and offered any operational help it could. To this day, there is still very little of McDonald's present in the day-to-day running of the business. And Chipotle has thrived. It's grown to over 495 units nationally, and while its average store sales are below those of Baja Fresh, they're still a respectable US$1 million.

So here's your opportunity: Early next year McDonald's will be offering the investing public a chunk of the Chipotle chain. Based on the growth of

- Opportunities like this mean it's critical that you're on the *Taipan* email list. But our records indicate that there are many *Taipan* subscribers who aren't on the distribution list to receive important 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 key alerts, the weekly Hotline—and a boatload of profits.

All you have to do is send us an email here: *taipan@taipangroup.com* with your subscription details (i.e. name, account number) and tell us to sign you up. Easy. We strongly urge you: do it today!

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the sector, I think investors will warmly welcome the IPO and I see good things on the horizon for Chipotle. The key will be how much of the company McDonald's decides to retain. It has to offer enough to the open market to make it truly an independent investment. But given the McDonald's track record, I expect it will.

Let price settle before buying shares

Of course, the share price has to make sense. I won't chase this one if it settles at too high a valuation after the emotion of the IPO calms. I'm also looking for a P/E ratio in the neighborhood of 20, which is at the high end of where other QSR's (quick serve restaurants) are trading.

But I think the combination of good-tasting food and the operational performance of Chipotle's management makes this a solid investment. Stay tuned for details and a specific pricing recommendation. ■

SEASONAL PROFIT OPPORTUNITY—PART 3

A five-year streak of big holiday gains: Buy now and sell in January to grab 43% profits

by Andrew Snyder

It happens each and every year at this time. Instead of wrapping gifts, economists and financial commentators get wrapped up in debating whether the holidays will prove to be merry or gloomy for the nation's retailers.

For me it all gets rather tiring. The truth is, it's very difficult to predict what consumers are going to do and how much they're going to do of it. Yes, the employment picture is looking brighter. Yes, consumers are still spending at a pretty healthy rate. But what about energy prices? What kind of effect will higher living costs have on holiday generosity?

Amid all the babble, there's at least one company poised to fare well this season no matter what consumers decide to do. Why? Because it's immersed in all aspects of holiday shopping and has a very solid track record of highly predictable gains at this time of year.

Buy shares in early December and sell them in late January. You'll make enough to pay off all your holiday bills.

Hitting for the cycle…

Thanks to the cyclical nature of **Value Vision Media's (VVTV:NASDAQ)** business, cashing in on hefty profits is extremely easy—even for the novice investor. Just take a look at a five-year chart and it's clear that the company's share price never fails to see positive action during the holidays.

You'll make enough to pay off all your holiday bills.

Here at the specifics:

During the 2000 shopping season, shares rose from under US$12 to just under US$20, a gain of over 60%.

- In 2001, shares tacked on approximately 40% over the holiday season.
- In 2002, the stock jumped close to 60% again.
- The gains continued during the 2003 season as the share price rose by over 25%.
- And last year, investors got the New Year off to a very profitable start as shares raced ahead by 40%.

This year should be no different. In fact, it should be even better. Value Vision has some great things in the works.

Turn on your TV, log on to the web, and tune in to profits

No matter what shoppers are up to this holiday season, Value Vision Media has perfectly positioned itself to take advantage of the shopping trend.

Sure, it might not be a household name. ShopNBC is much more common. It's America's fastest-growing shopping network and it is Value Vision's outlet to huge profits.

ShopNBC's broadcasts currently reach over 56 million households. With high gas prices making it much more costly for folks to drive endlessly around town, more viewers than ever are going to turn to alternative outlets to do their holiday shopping.

ShopNBC is perfectly poised to pick up the slack and take advantage of this trend. Through its television programming, it offers a variety of products ranging from brand-name clothing to electronics to kitchen supplies.

But what if you can't find what you want on the TV? No problem. ShopNBC's website is sure to have something to offer. It's fast, easy, and, best of all, the web is very cost-effective. While other retailers have to pay scads of employees to man their stores, ShopNBC takes very few people to run. And its consumer base is worldwide.

This season is shaping up for a 43% gainer

You've seen how Vision's stock regularly soars during the holiday season. But I believe this year could prove to be its best yet. After a recent decline, shares are currently hovering around the US$10 mark, just above a historically strong support level.

Even if consumer spending is lower than expected this season, shares of Value Vision are still likely to be selling for more than US$13 by February. That would be a gain of 16% from the current price around US$11.15. But I think you'll see more.

Because of its popular branding, a consistently fast rate of consumer spending and high fuel prices that

will boost that ShopNBC model, Value Vision may have its best year yet. Its shares could easily overcome the US$16 mark by January—a gain of approximately 43%.

I'm not the only one with such confidence. Value Vision insiders have been gobbling up shares since the beginning of October. CEO William Lansing recently bought more than 45,000 shares at a cost of almost US$500,000. The guy isn't exactly going to toss away half a million bucks of his own money if he didn't think his company was going to enjoy a stellar shopping season.

Value Vision offers a great chance for you to get a profitable piece of the holiday action.

Buy shares of Value Vision Media (VVTV:NASDAQ) under US$12 and be prepared to cash out by the end of January. ■

REAL WEALTH

The *Taipan* "House Hedge" update: US$1 trillion in adjustable-rate mortgages are slated to reset in the next 18 months—stay long on March 540 puts

by Bryan Bottarelli

"Toll Brothers said softening demand and moderating house prices would result in fewer new home deliveries in 2006 and would likely cut into full-year profits. The company also blamed a tougher regulatory environment and waning consumer confidence for the lower projections."

— Associated Press, November 8, 2005

Check out these statistics:

According to Freddie Mac, long-term fixed mortgage rates rose for an eighth consecutive week to their highest level in nearly one and a half years.

The average 30-year loan is now 6.31%, the highest since mid June 2004. A year ago rates were at 5.7%.

As these rates tick up, US$1 trillion in adjustable-rate mortgages are slated to reset in the next 18 months—and half of them will hit sub-prime borrowers. That's bound to leave a nasty scar.

Yet it's funny how nobody is talking much about this, huh? The question is: Are you keeping up to date on the US housing market?

If not, here's a "Cliffs notes" review: **You should still be long the**

over please…

HGX March 540 puts (HGX OH).

Based on a continued downward forecast for the HGX Housing Index, keep holding your HGX March 540 puts (HGX OH), with a sell target of US$81.00 for 135% total gains. ■

House Hedge Play Review:

August 555 Calls (HGX HK)
IN: June 27: $5.60
OUT: July 8: $11
GAIN: 45%

September 590 Calls (HGX IR)
IN: July 18: $9.40
EXPIRED

December 520 Puts (HGX XD)
IN: June 27: $27.30
OUT: October 5: $32.00
GAIN: 17%

December 600 Calls (GHE LT)
IN: October 3: $5.70
OUT: October 11: $1.10

**This sell alert was for conservative investors, along with taking gains on the March 540 Puts. We advised more adventurous folks to only sell half of this position and hold the rest.

March 540 Puts (HGX OH)
IN: October 3: $34.40
OUT HALF: October 11: $63.60
GAIN: 85%
HOLDING HALF: Currently $49.50
FORECASTED SELL PRICE: $81.00

TAIPAN GAINS + UPDATES

Head to the checkout with 36% bagged on Nordstrom calls and stellar gains from two more top retail performers

by Martin Denholm

With Christmas almost upon us, *Taipan's* resident retail expert Tony Mullen says the primary drive among retailers this year has been to get consumers spending before they see their first winter heating bill. That tactic is hardly surprising, with even natural gas expected to rise by around 60%.

According to Tony: "The holidays won't be as bleak as some think, but sales certainly won't be a good as last year." In the world of retail, all that matters is this year over last year. But rather than focusing on the big boys, Tony's strategy is aimed at higher-end retailers. A good example is **Nordstrom (JWN:NYSE)**.

In the October *Taipan* issue, Tony suggested you pick up some **January 2006 30 call options (JWN AF)**—a recommendation that proved extremely profitable.

On Wednesday, November 2, these options were on the move. And with gains of 36% at the time, he issued a sell on the position.

At the time of the alert, the options were trading for US$6, compared with the official entry price of US$4.40 on October 5. Readers could have cashed out as high as US$6.90 for 57% gains.

Spreading the retail love with two more Taipan winners

The entire retail sector has recently enjoyed some hearty gains on the back of stellar October sales figures. **Abercrombie & Fitch (ANF:NYSE)**, my own play from almost two years ago (entry date November 24, 2003 for the December 2003 *Taipan* issue) is going gangbusters, despite a recent widely publicized (and silly) protest against some racy new T-shirts by a bunch of high school girls and even a state senator.

Apparently they didn't realize that their protest would merely draw more attention to Abercrombie and its stock. Even though the company eventually pulled the T-shirt line, it actually turned out to be a huge positive—especially on the back of some astoundingly good October figures. Overall sales rocketed up 41%, while same-store sales zoomed 31%—the latest in a string of impressive monthly sales performances this year.

We sold the first half of the position for 46% gains a year ago. The second half is still rocking along for 113% gains. Oh, and that's not to mention the quick 77% gain *Taipan* readers took on Abercrombie September 60 calls in three days back in mid August.

One of my other long-time retail plays, **Pacific Sunwear of California (PSUN:NASDAQ)**, is also performing very well. This was a position I recommended back in the 2004 *Taipan* Forecast Issue when the company was in the midst of a rapid expansion. The stock has tacked on 26.7% so far.

Cashing out for gains on remainder of Patterson-UTI Energy—just in time!

Also this month, having already cashed out on the first half of the position for 34% gains back on

September 29, Sara Nunnally advised readers to bank 13% on the remainder of **Patterson-UTI Energy (PTEN:NASDAQ)** on Friday, November 11.

Although that might not sound like much, it's certainly better than a loss—especially considering investors were bailing out of the stock en masse following news that a former officer may have embezzled US$70 million or more from the company.

Volume hit a massive 21,773,212 as the stock sank US$2.83 (8.6%) to close the day at US$30. The selloff wiped US$500 million from PTEN's market cap. Having seen the news early that morning, Sara wasted no time in getting an alert out to *Taipan* readers, who should have been able to cash out around US$30.35. ■

TAIPAN

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CORE PORTFOLIO

Laser-maker Faro makes way for the Village

by Martin Denholm

It's been a tough road for **Faro Technologies (FARO:NASDAQ)** recently. This recommendation was originally a "pre-release" article to the May 2005 *Taipan* issue, with an entry price of US$25.09 ahead of an important strategic guidance and earnings conference call.

The stock did initially take off on a very upbeat report, scooting as high as US$30.59, but has since got bogged down in a patent infringement lawsuit with rival company Romer CimCore and a weak third quarter earnings report.

Faro, which designs and builds laser-based, precision-guided software applications for the manufacturing sector, is now facing a January court date with Romer, which alleges that Faro breaches its patent on its use of FaroArms.

For its part, Faro has responded by saying the "flawed ruling mischaracterizes" Faro, since the court has neither "reinstated" nor "reaffirmed" its prior ruling and has, in fact, altered its ruling by "substantially narrowing" the scope of the lawsuit. Faro believes that this "will ultimately lead to a finding that it does not infringe any claim of the Romer CimCore patent. FARO regrets that Romer CimCore has chosen to make seemingly misleading statements in the press that act to confuse rather than to inform the public about the pending litigation." Faro CEO Simon Raab states: "The Romer press release is just a continuation of belligerence and harassment by a large foreign corporation, which we continue to believe is the underlying purpose of the suit. There is no foreseeable event that will ever stop us from producing our product since we have numerous immediately applicable production design alternatives."

In addition, third quarter sales hit US$32.6 million. Yes, a US$9.2 million increase (39%) over Q3 2004, but still lower than the US$37.1 million estimate. Earnings hit US$2.6 million (18 cents-per-share), versus US$3.1 million (22 cents-per-share) a year earlier and forecasts that called for 25 cents-per-share.

For the fourth quarter, Faro expects to earn 19 to 27 cents-per-share, on sales of US$33 million to US$35 million—lower than forecasts of US$37.1 million in sales (35 cents-per-share). And from an August announcement maintaining its US$125 million to US$132 million in full-year sales and US$1.15 EPS, Faro now expects sales of US$124 to US$126 million (75-83 cents-per-share).

I've cut the company a good amount of slack so far, and while I believe its long-term growth potential remains solid, I can no longer justify keeping it in the Core Portfolio at this point. So I'm replacing it with another one of my recent picks—**iVillage (IVIL:NASDAQ)** from the October 2005 issue.

By contrast, iVillage third quarter earnings doubled to US$2.2 million (3 cents-per-share) over US$1.1 million (2 cents-

over please...

per-share) in Q3 2004 on revenues of US$22.6 million – a 32% surge over from US$16.7 million last year. And as I said in my original article, the company remains a strong buyout candidate, which should keep shares robust.

Dialing up Telefonos de Mexico as SpaceDev is launched out

Another change this month sees SpaceDev (SPDV:OB) make way for one of Erin Beale's picks, **Telefonos de Mexico (TMX:NYSE)** from the September 2005 issue.

SpaceDev is just too thinly-traded right now to make much of a move, but TMX is benefiting from an improving Mexican economy and recently announced that it will increase its share buyback strategy.

Already one of Business Week's "Top 100 Information Technology Stocks" and Fortune's "Top 40 Foreign Value Stocks," it plans to launch a new videoconferencing service that will expand its presence in the US Hispanic market. Fair value for the stock is US$32—a 51% premium over its current price. It also offers a healthy US$0.70 per share dividend (3.4% yield).

A trio of Chinese Internet profits

Back on August 27, 2004, we recommended three Chinese Internet stocks **Netease.com (NTES:NASDAQ), Sina Corp (SINA:NASDAQ) and Sohu.com (SOHU:NASDAQ)** on the strength of the Chinese economy and ever-increasing power of the Internet.

The entry prices were US$35.88, US$21.46 and US$15.85 respectively. And at the close of trading on Friday, November 18, NTES had surged to US$60.10 - a 67.5% gain; SINA had climbed to US$24.92 - a 16.1% move; and SOHU had advanced to US$18.13 - a 14.3% gain. In the *Taipan Hotline* that weekend, we recommended a sell on all three positions, locking in the profits. As a result, SINA and SOHU are also now out of the Core Portfolio. ■

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	$13.65	17.9%	$1 PER SHARE/7.4%	BUY BETWEEN $11.50 AND $12.50
ANTHRACITE CAPITAL INC (AHR)	11/29/04	$11.78	$10.30	-12.4%	$1.12 PER SHARE/10.6%	BUY UNDER $12
ENERGY PLAYS						
SOUTHERN COMPANY (SO)	8/2/04	$29.20	$34.56	18.3%	$1.49 PER SHARE/4.4%	HOLD AT CURRENT LEVELS
SUNCOR ENERGY (SU)	8/31/04	$27.80	$54.16	94.8%	$0.20 PER SHARE/0.4%	HOLD AT CURRENT LEVELS
DAWSON GEOPHYSICAL COMPANY (DWSN)	5/3/05	$19.70	$28.00	42.1%	—	BUY UNDER $20
TECHNOLOGY PLAYS						
iVILLAGE (IVIL)	10/4/05	$7.48	$7.90	5.6%	—	BUY UNDER $7.50
SYMANTEC (SYMC)	5/3/05	$18.91	$18.61	-1.6%	—	BUY UNDER $20
SPECIALTY POSITIONS						
PHARMACEUTICAL HOLDRS (PPH)	5/1/05	$75.00	$67.46	-10%	—	BUY AT CURRENT LEVELS
iSHARES RUSSELL 2000 GROWTH INDEX (IWO)	7/22/05	$68.85	$69.25	0.6%	—	BUY UNDER $67
COMPANHIA SIDERURGICA NACIONAL (SID)	8/31/04	$15.45	$20.53	32.9%	$3.05 PER SHARE/17%	BUY UNDER $17
TELEFONOS de MEXICO (TMX)	9/1/05	$19.25	$21.17	10%	US$0.70 PER SHARE/3.4%	BUY UNDER $22