Profit Perspectives: 2001

ANNUAL TAIPAN FORECAST ISSUE

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Our network takes advantage of the disparity of knowledge and the inequality of its distribution to maximize investment profits for our network associates and subscribers. And even though in the past, *Taipan*'s investment recommendations have produced huge gains, past performance is no guarantee of future gains.

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Profit Perspectives: 2001
AN OVERVIEW

by J. Christoph Amberger

As publisher of Taipan, *J. Christoph Amberger's role can be compared to that of a spider in the middle of the web. He is constantly in touch with all of* Taipan's *sources, contacts, and correspondents, directs their research, and identifies new and promising subjects.*

J. Christoph Amberger grew up in what used to be West Berlin, Germany Educated at Berlin, Göttingen, Aberdeen (Scotland) and St. John's Graduate Institute in Annapolis, Maryland, his work and travel have given him firsthand experience of eastern and western Europe, as well as North and Central America. A frequent speaker at international conferences, he is the author of several books and scores of articles and special reports on international politics, travel, palaeohoplology, and collectibles.

You can read excerpts from his latest book, The Secret History of the Sword, *at www.swordhistory.com.*

Dear Friend and Fellow Investor,

Winter is settling over the country.

By the time you're reading this, the United States will have survived the litmus test as a functioning democracy. A president not only has been elected but, finally, maybe even confirmed. "For the people, not the powerful" signs have disappeared from the lawns of US$400,000 mansions. And those for whom aligning an arrow with a proper name proved too much of a challenge are now doing what they do best: Passing blame and keeping lawyers busy suing whomever they can find.

In certain states, even those recently deceased who inevitably are roused by the necromancy of rigorous "get out the vote" campaigns (and inevitably end up voting Democrat!) have safely returned to their final resting places. (After the spectacle of the post-election period, let's hope nobody starts checking voters lists against the obituaries in these places...)

It's the end of an era. William Jefferson Clinton is about to shuffle back into the shadows of history, an embarrassment to his own legacy. And just in time, the foundation of his popularity – a strong economy still flush with cash generated by the Internet euphoria – is beginning to crumble. For the first time in years, U.S. investors are facing a horrifying vision: **a NORMAL economy!**

No balm in Gilead?

Now that Internet stocks have lost a cumulative US$560 billion in value (and counting)… Bill Gates alone is down US$12.1 billion… how can I sit here and tell you this is the healthiest moment Wall Street has seen in years?

If you already miss the days of mindless Internet IPOs… of high school dropouts with "Maynard-Crabbe" goatees, ugly shoes and a three-page business plan turning into millionaires overnight… or if you're hoping DrKoop.com is coming back based on the revenues generated by that sage's advice… then maybe this special 2001 Forecast issue isn't for you.

But if you think 10-for-1 profits in companies with real businesses, smart profit strategies and strong management sounds at all interesting… then by all means, please read on…

First, let's get one thing straight.

Yes, the days of dot-com mania are over. Finished. And guess what – good riddance! Who needs the headaches and sleepless nights, after all?

But don't get me wrong.

Even though the mania is over… even though breath-stopping losses are for the

most part behind us… even though the bold young punks of Wall Street have finally gotten their comeuppance… our opportunity for soaring profits is just about to begin. How?

Act II always follows Act I

In this special Forecast issue of *Taipan*, you'll find stunning opportunities in the next few years that could make you a fortune. The hype… the weak hands… and all the false starts of the last two years have been eliminated. Wiped out.

But suppose you could read a blueprint of the next 10 years. Would we forget about the human genome? The computer chip? A digital future? Not likely.

You're about to see why. You'll also see how a new class of wealth will emerge… and find the tools you need to make sure you'll be one of the winners.

At the same time, those who miss out on the opportunities… or simply don't understand them… will join the growing ranks of the disenfranchised… the out-of-touch… the new poor. In fact, many investors will miss the boat. And it's too bad. Because the opportunities you'll read about here won't come our way again for a long, long time.

Yet, a lot of investors – even smart investors – don't even realize what they're about to miss.

Here's a market truth: Most people never fail to spot the tail end of a wagon train. But they almost always miss an opportunity to take the lead position.

Take a few of the recommendations *Taipan* invited you to pounce on over the last few years: If you took us by our word and invested US$10,000 in a little-covered company called Akami Technologies… and some of you did… you could have cashed out with US$81,100 in profits. In only 3 months.

Not bad, right? I know I could do a few things with an extra US$81K, couldn't you? But suppose you also could have joined us for another US$40,500 profit on a little company called Elbit.

Or better than US$62,300 on shares of Interwoven? Again, not bad. Few investors did this well over the past year on shares of Amazon, Microsoft, or Qualcomm.

Yet, on another recent investment we could have led you to, you would have pocketed US$180,500 – in less than 5 months!

Now suppose you could have made this kind of money not just in the last year…

Not just in 1999… or in 2000.

But for the last 12 years straight! Impossible?

This is my point. You're about to find out exactly how it was done. And how you can do it again. And again, if that's what you wish.

How to make money no matter what's happening on Wall Street

You see, if there's one thing that our 12 years of investment success have proven beyond a shadow of a doubt, it's that you can always make money. There's always an opportunity in the market for you to jump on.

The strategy we apply is simple. And almost infallible. (Almost.)

I'll share it with you. And, as I said, I'll show you six different ways you'll get a chance to apply our approach over the next few years. But first, I must warn you to be careful. Because you're about to face a few important choices.

I'm pretty sure you'll make the right ones. But a lot of investors will not. Let me show you what I mean… The bad news is that quite a few people are destined to join the ranks of America's "New Poor" in the years ahead.

A few will be the people you expect. The disenfranchised. The uneducated. Those who never did understand the shift from the Industrial to the Information Economy.

But many of the victims in the years ahead will shock you. For instance, one massive group facing terrible financial risk is made up of – surprise – middle-aged married women!

According to the General Accounting Office, a record number of women are headed for retirement with virtually no savings of their own to speak of.

You'd think they could count on the family nest egg. But think again. 80% of America's widows who are currently below the poverty line were not poor before their husbands died.

As you can see, the future can be cruel. If you're not prepared.

Tomorrow's elderly are in danger too. Even those with savings. Why?

Think about it. Daily nursing care tops out at around US$200 today. That's over US$73,000 a year. But government projections put costs at more like US$700 daily by 2020. That's over US$255,000 a year!

Who has that kind of money to burn? Not today's retirees. Average baby-boomer savings are just US$2,300… with over US$8,570 in average credit card debt! (I have friends who pull in in excess of a quarter million dollars a year, with five-digit credit card bills each month… and yet they scramble each April 15 to scrape together the money they owe the IRS.)

If you're worried about your friends' futures, you have a right to be.

As the middle class disappears, the number of poor retirees facing an unfinanced future will just keep climbing. You'll have to decide in the days to come where your fate will lie.

The good news is, you'll have plenty of chances to decide. And plenty of opportunities to guarantee yourself and your loved ones greater investment returns for years to come. Meanwhile, other people you and I know won't be so lucky.

For instance, the executives who pinned their dreams on the worst of the dot-coms are already facing some severe financial facts.

Even tech optimist Henry Blodgett, the famous Merrill Lynch analyst, predicts that only 15 to 20 Internet firms out of 400 will earn a profit over the next four years.

That doesn't sound like very good odds, does it? I know I wouldn't want to bet my future on it.

In fact, at *Taipan* headquarters, we think Blodgett is being generous. But as I said before…

Eyeballs and click-throughs are out, long-term profits are in

Alan Greenspan put it right. In a recent speech to Congress, he talked about inflation

fears. He talked about rate hikes. But he also couldn't deny this:

Regardless of what just happened to the dot-com mania of 1999/2000, our future – and the future of technology – has changed forever. "Irreversible" was the word he used.

In other words, regardless of what happens to these Wall Street fads, the technological revolution itself is here to stay! So is the economic boom it will generate.

We couldn't agree more.

Two high-level analysts from financial firm Donaldson, Lufkin & Jenrette researched trend cycles back to the time of Babylon.

They came to an interesting conclusion. Dot-com crash aside, our current tech revolution closely resembles the early stages of the other historical shifts.

In other words – just like the Industrial Revolution of the late 18th century and the electrification of the Western world in the 20th – this revolution is still just getting started!

Even the Internet – after losing billions of Wall Street dollars – still doubles its user base three times a year… America Online still remains in the Fortune 500… and Moore's law about computers doubling in speed every 18 months still applies without fail.

In fact, it's happening even faster!

In the days to come, you'll also see a lot more people get rich. On real companies rather than pipe dreams.

You'll watch the stock market uncover opportunities few of us now imagine possible. The six events that follow are just your first glimpse of what's ahead.

12 years of pursuing excellence

With the November issue of the year 2000, *Taipan* entered its 13th year in print. And I'm proud to say that I've been with our group since right after its inception in 1988. Looking back, I have to say that I've been truly blessed to have been a part of a small but stunning group of individuals.

As *Taipan's* publisher… who works at the professional hub of a dazzling network of experts unlike any you've ever met…. I often get stuck with the grunt work. I make sure someone is arranging research expeditions… copy-editing reports… fixing computers and charging cell phones…

But it's not my story that should interest you.

What I think you'll find a little more fascinating is how my IPO specialist, Siu Yee Ng, managed to lock down 132% average gains for her readers on her open IPO recommendations. Her 2000 aftermarket gains are up a stunning 334%. In a market where IPOs are now regarded with suspicion!

Or how *Taipan's* "Hammer," Christian DeHaemer, told our readers to buy Sun Microsystems just before it split last year. Had you been with us then… you would have made US$17,900 for every US$10,000 invested.

Triple-digit returns you can boast about

In 1999, you would've enjoyed no fewer than 17 triple-digit and quadruple-digit

gains with the help of our service.

Winners like Free Markets, up 341%… Millennium Pharmaceuticals, up 236% in 7 months… Interwoven, up 623%… MedImmune, up 274%… Optical Robotics, up 210% in 5 months… Elbit, up 405%… Akami Technologies, up 811% in just 3 months… and Red Hat, up an impressive 1,842%!

This year, in 2000, our team produced another harvest of triple-digit gainers… notwithstanding the sickening ups and (mostly) downs of the market. James Passin urged you to take 170% profits in Genus… for a total profit of 550% since his first recommendation. Siu-Yee closed out Interwoven for 1,129.41% total gains since her initial recommendation (up 65.26% for calendar 2000). Chris DeHaemer's Zi-Corp. finished up 433.33% (up 88.24% over December 31, 1999 levels). And Brit Ryle signed off on a 300% home run with SafLink.

I'm not trying to brag to you.

I just want you to understand – before you read on about my team's current recommendations – how you can use their advice to make money like this all over again. And just as fast and reliably.

Courage. Foresight. And Profits.

We named our investors' network after the ruthless and brilliant English merchant-adventurers who made their fortunes in "the Orient" of the 1800s.

We're mostly Americans (though I was born in Berlin).

But *Taipan* actually first came together on an afternoon in Hong Kong, back in 1988. My friend and colleague William Bonner had just met with visionary investment analyst Robert Czeschin. Together, they had a revelation.

Very simply: Information moves markets.

Remember, this was back when there was no such thing as a day trader. MSNBC didn't exist. And CNN was a shadow of its current self. Still, they saw then and there that a private network of experts… with access to the highest quality of investment information… could pool talents, unveil opportunities, and literally crank out profits all over the world.

And all it takes is an efficient form of communication. A way to share vital investment information among a small group of smart, like-minded investors.

Back then, all we had was a monthly newsletter. Simple, but effective. Very effective.

Since then, we've grown. You're now plugged into a vast network of investment contacts. Not just your usual assortment of brokers, bankers, traders, talking heads and economists. But everybody who can reach deep into the nitty-gritty of world events and come up with a wriggling secret or explosive piece of news…

Scientists and inventors. Genetic engineers and programmers. Lawyers, doctors and our own squad of tax advisors. A real estate specialist and a finance minister. Highly placed politicians and technical engineers… even ex-intelligence agents revealing the secrets of their trade.

It's an adventure, definitely. And shockingly accurate in what it will show you about

things to come. Other market experts have even said reading *Taipan* is like reading a blueprint of the future. And a very profitable blueprint indeed.

Let me show you what I mean. Here are 3 inevitable profit events that will dominate the headlines in 2001:

INEVITABLE PROFIT EVENT #1: THE COMING BOOM IN "PROTEOMICS"

Maybe you already know… you could have made a fortune investing in biotechs last year. (In fact, if you followed the advice of our biotech specialist Brian Hicks, you probably did!) But the profit run is far from over.

You see, before the genome breakthrough, there were only about 400 avenues for using drugs to fight disease.

Now that the genome map is complete, the new possibilities for treatments number closer to 8,000!But even that is just the beginning. In fact, the new breakthroughs will have 10 times the moneymaking potential of red-hot biotechnology stocks!

If you owned companies like MedImmune last year, you would have joined *Taipan* investors in making 274% returns. Millennium Pharmaceutical would have given you 236% profits… and you would have joined us for another 456% on Closure Medical.

But even if you missed out… the next wave of profits will be ten times more lucrative, thanks to the coming biotechnology miracle – the discovery of proteomics.

You don't need a biology degree to see why. All you need to know is that there are over 3 billion DNA pairs in the genome database.

Only 3% to 5% of them actually contain genes that drug companies can use. But that's still over 150 million pairs to sort through.

How will biopharmaceutical companies and life scientists do it? The secret, it turns out, is that every pair of genes is made of 4 to 5 tiny proteins.

The science of manipulating these tiny proteins – proteomics – is the fastest growing and possibly the most profitable field within the biotech industry today.

Because a company that specializes in proteomics is a specialist in *bio-infrastructure*. It's that simple.

What is "bio-infrastructure?"

Consider the elaborate software a company like Celera needs to sort genetic proteins. Imagine how fast these specially designed computer chips have to be to power a genetics lab. And how useful it will be in years to come to be able to test the effectiveness of DNA-based drugs with software rather than with live subjects.

These are all stock plays at the core of the biotech revolution. But you won't find any opportunity closer to center than proteomics.

Because proteomics deals with the very proteins that make up every DNA strand. This is literally were everything in the future of bio-investing begins!

In the words of one inside researcher, proteomics stocks could give investors a gain "at least ten times bigger than the value of genomics profits." But you can't wait too long.

For instance, the Salt Lake City company Myriad specializes in proteomics. And they've already attracted enough attention to build a US$1.5 billion market cap.

For Myriad, it's too late for early investors. But don't worry. Brian Hicks – our resident biotech expert – has just found another proteomics company that's still cheap.

We will be keeping you up to date on his picks… including when to buy… what signals and breakthroughs to watch for… how to hedge against downside risks… and more. For example, you'll also discover the other hot bio-picks *Taipan* subscribers are following right now…

"Four-target" biotech cure for obesity… Brian just found a genomics company that's identified four separate "gene targets" linked with obesity. This company already has a five-year deal with Hoffmann-LaRoche to create biotech treatments for curing obesity. 250 million people worldwide suffer from it. The market for a cure is roughly US$30 billion. Buying this company now is like picking up Amgen when it was selling for next to nothing back in 1995 (which would have made you a profit of 846%!).

No fewer than 8 drug companies use this biogenic diagnostics company's cutting edge technology. Are they making money? My team puts their 2002 revenues at US$265 million (they've grown 45% every year since 1996!). Yet their market cap is just US$1 billion… when a more logical valuation is closer to US$10 billion! We're predicting a profit of better than 1,000%. This stock all by itself is a golden wealth-making opportunity. Look for details in an upcoming *Taipan*!

We're also watching a lab in the Southwest that's just found a genetic "scaffold" linking together a protein-based "on-off switch" for cancerous tumors. Within 5 to 10 years, we may be able to shut down cancerous cells like you would shut off a light switch. In the meantime, investors who get in early will seize one of the moneymaking advantages of a lifetime.

Proteomics research happens faster too. So does new-drug discovery. At a time when speed of discovery is almost everything! But here's the problem: how to choose between 8,000 patented paths to profit?

Today's drug industry – without accounting for the coming biogenics revolution – is already worth US$350 billion. Can you imagine, then, how much more it's worth now that the gene map gives scientists and drug researchers nearly 8,000 new avenues for biopharmaceutical treatment?

And following the trail to gene patents is the key to profits. Think about it. It was patents that helped communication pioneers develop radio and television… and make fortunes in the process.

Likewise, in the months to come, the more you know about who's winning the race for biotech patents, the better off you'll be.

Here's a useful little secret…

Winning the patent race is a competition not every biotech company is up to. Back in 1980, the U.S. patent department logged 100,000 patent applications. That was the year Apple and IBM first woke us up to the possibilities of the desktop computer.

Last year, the patent department took in nearly 270,000 applications!

Most of them were from biotech companies, all vying for an edge in the explosive new field of genomic medicine. Not all of them will succeed. But for those that do, the moneymaking potential is explosive.

DECISIVE PROFIT EVENT #2: THE STUNNING "M-COMMERCE" REVOLUTION

Let me ask you a question…

How well do you know your history?

If you know it well, you know there's one common thread in every incredible success story. One thing that seemed to put world conquerors, master tradesman and fortune-makers over the top. What is it?

Connectivity. Plain and simple.

Whether it's tea trade from China to London… or telecom trade from Tokyo to New York… you make the biggest fortunes by connecting first with new markets… safely transporting goods (or these days, digital data)… and delivering your services faster than everybody else.

And regardless of the sheep-shearing that's just hit Wall Street… regardless of the over-hyping and over-selling of telecom stocks that's definitely happened in the past… the one thing that hasn't changed is the fact that telecommunications – especially the radical evolution of wireless telecommunications that's going on right now – is changing the world.

It's changing the way we work. The way we relax. And for your sake, I hope it's changing the way you invest!

In New York, AT&T and other wireless companies are fighting over rental space – not inside skyscrapers, but on top of them! Because they can't build wireless telephone towers fast enough to keep up with service demands…

In Brazil, cell phone use is so commonplace, one thriving town near Sao Paulo actually needs a law threatening fines against people who use their phones in restaurants, movie theaters and libraries.

And just in time – by 2003, more than 58 million Brazilians will have cell phones!

Faster wireless… coupled with wireless Internet… is making "m-commerce" the hottest new buzzword on Wall Street.

"M-commerce" is "mobile commerce."

And this new trend actually has a long tradition. Businesses have always aimed for increased efficiency and greater profit margins. Whenever they succeed, it translates into higher employment and higher stock prices for the rest of us.

Today's top management sees the world no differently…

As the world goes even more "mobile," you'll make a fortune!

While the talking goons on TV investment roundtables are wondering what happened to that cute sock puppet in the online pet shop commercials… real businesses (with profits that impress) are busy equipping their employees with Palm Pilots and cell

phone service… not to mention wireless Internet access, laptops and personal online accounts. Again… why? Think about it.

How often do you see tired guys in suits typing away at a report on the train? Or yakking into their cell phones, trying to close an important deal in the airport lounge?

I don't know about you. But I remember when we used to just read magazines on trains. And maybe sip a scotch in the airport lounge while thumbing through the latest bestseller. These days, I have to suppress the urge to walk up to the biggest loudmouth, twist his phone from his hand, and drop it in his half-gallon bucket of airport cappuccino… just to get a little bit of peace and quiet.

Forget about it. The mobile office goes wherever you go. The old ways are disappearing. But as much as you may hate the mobile yakker at the restaurant, or as much as you'd like to yell at the suburban housewife who one-handedly jerks her Ford Excursion through a busy intersection while chatting on her mobile about how men just don't get it… You can't resist progress – especially when you buy stocks!

Remember, connectivity of one form or another has led to financial success across the pages of history.

According to industry analysts at the Yankee Group, the mobile workforce already includes over 60 million people.

That's a lot of cell phones and Palm Pilots. And the numbers are growing! By 2003, there could be more wireless units linking to the Internet than there are desktop computers!

But your advantages as an investor or a businessman are piling up, too. Traders get instant buy and sell messages right there on the floor of the stock exchange… customer orders get picked up and passed on to a fulfillment house in an instant… healthcare technicians and doctors get instant wireless access to a patient's medical records…

There's far too much money to be made by "going mobile" for tech-smart CEOs and Western industry to miss out on the trend.

Companies that don't have access to real-time data in the years to come simply won't move fast enough to keep customers. Working around the clock – and wherever you are in the world – is inevitable. So are the investment opportunities that will follow.

Forget doomsday whining…

Don't get me wrong. Wireless service is still far from perfect. But if you're just starting to look into this industry now, don't think you've come late to the table.

In fact, you're getting in right on time.

You've seen the TV ads touting the usual gimmicky applications for mobile phone customers – email access, stock quotes, news alerts and the like.

Once they get the bugs worked out (in other words… when you can look at high-resolution porn on a display panel smaller than a matchbook!), this will be a huge market. Perhaps the second largest in this sector. Add that to the US$40 billion consumer wireless services already rake in every year.

But a far more lucrative market for the future is the one that taps into the mobile

workforce we just talked about.

In 1999, businesses of 100 or more employees spent US$66 billion on wireless equipment and service. That number is expected to grow to US$117 billion by 2002. Conclusion: Buy companies creating the best business applications for the wireless market.

The Small Business Association tells me there are around 15,000 companies in the U.S. with more than 500 employees.

That's nice. But here's something nicer.

Your better opportunity will come from the application providers who target companies with fewer than 500 employees. Why? For one thing…

There's more than 5 million of them!

Now, I'm sure we can exclude a few mom and pop stores from that count. And let's factor out a few lame ducks that we don't expect to be in business next year.

But even if we cut that available market in half – just 2.5 million small companies – your opportunity in this sector is incredible.

Any company that can develop a single application to work on each of the three major wireless platforms worldwide… and on desktop computers too… gives you a powerful edge.

But a company that also targets 2.5 million small businesses with those services takes you another leap ahead!

Brit Ryle, our resident wireless expert, has locked his radar on to a wireless company that does both. But these markets move quickly. Rest assured… There will be plenty of opportunities just like this one in the years ahead.

UNSTOPPABLE PROFIT EVENT #3: THE NEXT INFRASTRUCTURE EXPLOSION

How long could a building stand without beams and girders inside the walls? Not long. We talked about the importance of infrastructure to the biotech industry already.

But think about this. Suppose your telephone service shut down. How long would your family stand for it? Not long.

Would you notice if all the cable television lines were cut? Of course you would. Would businesses complain if they could no longer send faxes, hold conference calls, take orders or send emails? How about if stores and restaurants suddenly lost the ability to run your credit card through that little machine that calls the bank network to get instant approval?

I'm not telling you this is what will happen. Quite the opposite.

The digital infrastructure is firmly in place. We depend on it. Every day of our lives. Why? Simple.

Once you build an economy and a way of life on top of a framework, you can't remove the framework. Or it all comes crashing down. Nobody wants that to happen. Nobody is going to let it happen, either. Yet, the higher you build the economy, the more important that framework… that foundation… becomes.

In today's digitally charged economy, the communications infrastructure is that framework. Not just now. But for the entire economic boom to come. Without question.

No matter what happens in the trading houses, you can bet on this trend.

At the start of the last century, massive factories and rising skyscrapers that seemed to defy the laws of physics set the new world apart from the old.

In the coming years, data lines will substitute for steel beams and girders. The miles of coded wires, fibers and ever-faster banks of semiconductors take the place of the trains, ships and warehouses that moved and stored products in the past.

And network hubs, chips, and routers do the work of rivets by holding it all together. In a word: INFRASTRUCTURE.

Telecom terms like DSL… satellite access… third-generation cellular… hybrid fiber/coaxial cable modem systems may not sound *sexy*.

Same goes for packet-switched fiber optic networks… digital-circuit switched networks… and Internet telephony…

But sexy or not… complex or not… knowing your infrastructure opportunities will make the difference between winning and losing in the months ahead.

For instance, one very "un-sexy" superconductor stock we recently recommended could have made you an 800% return in just two months! You've already missed the early profits. But there are great stocks that are still grossly undervalued. Let me show you what I mean…

The Next Cisco Systems?

You may not realize that you and I live in an era of telecommunications mayhem. With millions of miles of cable crisscrossing under our feet. And thousands of satellites jumbling their signals overhead.

Somebody has to keep it straight!

James Passin – who's been a leading analyst and stock picker with my team for the last 7 years – predicts you'll make the most money in wireless telecom by investing in a network optimization company that does exactly that.

They sort out signals in networks.

James sat down with the company's CFO in January of 2000.

This isn't some venture capitalist's roll of the dice, he told our subscribers. It's not a random startup.

Instead, it's a spinoff from a world-class player in high speed telecommunications. You only have to look to the parent company to see the immediate value. The parent has over US$1.1 billion in sales. They have a massive sales and distribution force. And their managers have decades worth of experience.

In just the first quarter of 2000, their little spinoff posted a 55% gross profit margin. What's more, they've got a 5-year estimated growth rate of 40%!

Compare this company's US$300 million market cap to everything else in this sec-

tor, and you'd still get in on these shares at a 70% discount to the market!

James calls this stock a "pure play on telecom network optimization and a Strong Buy with a twelve to eighteen month money-doubling target. That's my conservative bet."

I can only tell you this.

Taipan subscribers have already tucked away 127% profits this past year on James's DSL hardware recommendation. And he's helped our subscribers make a very impressive amount of money many times in the past. And they'll continue to make more. For instance, right now we're bullish on another technology with a complicated name.

It's called DRAM.

DRAM is short for Dynamic Random Access Memory. It was hot until a shakeout in 1998.

Now it's in recovery. In fact, DRAM investments could give you five-fold profits. If you follow *Taipan's* advice on how to play DRAM stocks without paying too much or exposing yourself to regular fluctuations in computer chip prices.

It's not as hard as it sounds.

We're especially targeting a company that's mastered CVD – or "chemical vapor depositions" – the thin film that goes on semiconductor chips… This company's specialty is the use of tungsten nitride, which works especially well on the smaller and smallest chips.

As of this writing, you could still buy shares for just US$3. But as this company's gross revenues creep upward toward US$50 million, don't expect that opportunity to last long. You'll have to jump in soon.

Because we expect the share price to double to US$6. Within three years, our target is US$15 – for a 500% profit!

More winners for the months ahead…

Expect 130% profits on a media company that's already a winner. One of my editors and top stock-pickers, Christian DeHaemer, recommends you watch a company called Media 100. Media 100 was an infrastructure company selling advanced media systems, disk drives and ancillary video equipment. But in December of last year they switched to the explosive new field of digital video. Now they're busily snapping up video tool companies whose prices are still low from the shakeout of Internet stocks.

Here's the news that will shock buyers of last year's profitless IPOs – Media 100 already makes a profit on their business. That's not something you would have heard from most media companies last year. But thanks to a 150% growth rate projected for the streaming media industry… Media 100's bottom line is destined to grow even larger.

Chris projects US$77 million in revenues for Media 100 over the next year. And he puts the target price for the company's stock at 130% higher than what you can buy this company for right now!

Here's another hot performer that will give a charge to your portfolio – literally. You'll want to own the company that has created advanced lithium polymer batteries for cell phones and satellite companies. They've just taken their first purchase order from a major satellite cellular service. So it's still early in the game. But this company's

batteries are custom-designed technology for the new wave of wireless Internet devices.

I want you to have the details on every one of these picks… and on those picks we have recommended over the past year. This is why *Taipan's* team pulls out all the stops each year to bring you this special forecast issue. Not just the infrastructure stocks you expect to hear about… not just infrastructure stocks at all, in fact. But a methodical, relentlessly honest outlook on all the opportunities we've pointed out to you in the last few of months.

What most investors will miss… until it's too late!

Long before anyone thought there would be movies made entirely by computer animation… long before T-Rex was crushing jeeps in Jurassic Park or Arnold Schwarzenegger was flexing his muscles against the animated attack robot in T-II…

My team had already told readers about a little company called Silicon Graphics.

You've heard of it by now. Well, our subscribers made 40%… long before it was time to bail on the stock.

Today, we're looking at even more exciting stories in digital video. Digital filming technology and sound… digital effects innovators… and the digital film distribution technology that could eventually save Hollywood studios as much as US$500 million a year.

You should also watch the companies that will break new ground in privacy protection and computer security.

Our own *Taipan* readers recently made a quick 53% profit – US$5,300 for every US$10,000 invested – in a biometrics company called Printrak.

Biometrics is what scientists call the technology of personal data collection. Fingerprints… voice patterns… face maps… even eye scans, genetic code samples and specific body odor.

You name it and it's coming. Especially with the way security breaches and digital foul play are on the rise. And you can be there to profit… if you let *Taipan* help.

You'll also want to be there with us to profit from the debut of "moletronics."

Researchers at Hewlett-Packard and UCLA just developed a prototype computer chip that's not silicon… but based on a tiny rotaxane molecule.

This new development means you could have a computer in your house within 3 years that will run at speeds up to 100 billion times faster than any PC you might have sitting on your desk today!

In fact, by 2003, a molecular computer in development right now could give you as much processing power as all the transistors in all the computers in the world. Ever built. I'm not making this up.

Your possibilities for new profits are endless

One company we're watching – Nextlink – has just acquired exclusive rights to a 16,000 mile, high-speed fiber optic backbone network connecting more than 50 U.S. and Canadian cities.

But they've also tapped into the future with something called local multi-point distribution service.

This means Internet connections more powerful than the fastest service you can buy (the T-1 line)… but via antenna. Imagine the possibilities!

We're also watching Denver-based Formus Communications.

As you read this, Formus is using LMDS – or fixed wireless Internet – to get more of Europe online. Think back to some of the investing opportunities you had in 1995: Qualcomm, Cisco, etc.… The fact that Europe is years behind the U.S. in Internet technology is actually to your advantage. As they race to catch up… you can invest using the familiar patterns that played out successfully in the U.S.

But even better, you can make more money by spotting the newer technologies Europe will use.

And then we'll plunder the upgrade opportunities as they migrate back over the ocean to the U.S.! It's a nearly limitless cycle!

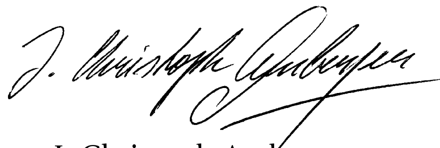
This will mean, among other things, that you could make breakthrough profits in things like "moletronic" precursor technology…

You can read all about it in monthly issues of *Taipan*. It's the far reach that gives you a cutting edge with your investments.

Contacts with the pharmaceuticals, industrials, shipping and transportation companies… breaking profit news on foreign exchanges and in top levels of government… in fact, in just about every industry and closed-door strategy session that could impact your investments.

But what you'll learn from our network is news you won't find elsewhere. It's not always the popular opinion either. We don't pull punches. We don't toe any party lines. And we don't believe in being politically correct! As far as we're concerned, we believe that's the only way to guarantee that our subscribers make money… a lot of money… with their investments.

With my best wishes for a wonderful holiday season and a profitable New Year in 2001,



J. Christoph Amberger
November 2000

2001: A Stock Oddity

THE U.S. BACK ON THE BULL AND SOUTH ASIA RISES AGAIN

by Christian DeHaemer

Christian DeHaemer writes, researches and edits for some of the leading technological and emerging-market newsletters published today. He is the top editor for Taipan, a widely read and controversial powerhouse that has been making and fulfilling bold predictions about market trends for the past 12 years.

Taipan is read in more than 108 countries and translated into two languages. Christian has also created The Hammer, a gritty-voiced, fearless and actionable venture into the soft underbelly of Wall Street. Recent winning picks have included 680% gains from Broadcom, 352% gains from Oracle and more than 700 percent gains from Zi Corp.

Christian's most recent publication is The "Flying V" Lockup Trader, a profit machine focused on the tremendous gains waiting to be unlocked in the New Economy's ever-fluctuating tide of supply and demand.

Christian recently competed in The Dominator, a team adventure triathlon that included running, mountain biking and canoeing. When asked how he did, Christian simply responded - "I finished."

Legend has it that in 1793, grave robbers disturbed the eternal resting place of Nostradamus. They were seeking to drink from the skull of the famous prognosticator and thus acquire his otherworldly knowledge.

It is also said that Nostradamus had foretold this event and cursed the brigands with death – in advance. Their only warning was a plaque placed around his neck that read "1793." The worst of the ruffians hoisted the skull and was immediately shot dead by a wayward bullet fired from a nearby skirmish of French Revolutionaries and suspected Royalists.

Now that's telling the future with style. A far cry from our beloved network television newsreaders who nailed the Presidential election. But let's face it — predicting the future is hard work.

Well, I'm hear to tell you that to the list of world's greatest futurians, which includes the likes of Jules Verne, Aldous Huxley, H.G. Wells, and George Orwell — you can add the name of Christian DeHaemer.

Would it be immodest of me to say I told you so?

That's right. Go back and reread last year's *Profit Perspectives.* You'll find such stunning insights as the death of the desktop. Look no further than the share prices of Dell, Microsoft, Apple or IBM to verify this prediction.

I also stated that the dot-coms would be taken to school after a blowout Christmas, and warned that you should sell by the time Q1 numbers were reported. One look at March 2000 will tell you that the dot-coms got crushed. Alas, the sock puppet is no more.

Furthermore, I predicted that digital phones and PDAs would merge to become the digital Swiss army knife. This Christmas a host of companies, including Casio, Samsung, Sony, Palm, Handspring and others, will make these things as ubiquitous as toasters.

This year, in contrast, I am saying that the PDAs will be the first bubble to be popped in 2001. I am short **Handspring (HAND: NASDAQ)** in the *Taipan Trader*, because it is trading at 3000 times the 2002 earnings estimates and headed for an IPO unlock of epic proportions. By the time you get this tome, it will be too late to short it. But if my theory is correct – and I am confident that it is – there might be a fantastic buying opportunity in early January 2001.

Y2K dud

Last year was the year of the big catalyst – the omnipresent date on the calendar. Not only did I predict that Y2K would be a nonevent, but I went to book on it. I recommended that you buy **Oracle** below US$30 a share based on a post-

Y2K boom in IT spending. That's what happened, and less than a year later you had the opportunity to lock in profits of 357%.

Sun Microsystems (SUNW:NASDAQ) acted much the same way. I recommended buying SUNW at US$106 in December 1998 and reiterated the buy in last year's *Profit Perspectives*. Here it is two years and two splits later, the stock is bouncing off a US$120 high – and your cost is now US$26.50. You're up 352%! Not too shabby.

Asia – the American option play

I'm going to give my forecast on Asia in just a moment. But because of the globalization of today's markets, you can't talk about Asia without first touching on what is happening in the U.S.

And in the land of mom, apple pie and drive-thru divorces, the markets are shaking off the effects of the dot-com dead pool. Pets.com, Dr. Koop.com, CyberianOutpost.com, TheStreet.com... I could go on, but I'll spare you the litany of bubble-to-bust bromides and trite platitudes about tulip manias and Austrian economics.

It's now November. October has cleared away the last of the bullish sentiment. According to the Consensus Index of Bullish Opinion published in Barron's, the bulls have declined from 45% to 37% over the past three weeks. This is a contrarian indicator, which assumes that most analysts are wrong at turning points in the market.

The same goes for the put/call ratio, which has dropped below 0.60. Anything below 1.0 is a buy, above 1.70 it's a sell. This chart simply measures investor sentiment. Again, it's a contrary indicator.

The fall to grace

It's time to reevaluate the current investment climate. Over the past year we've had a series of bad tidings, ranging from interest rate hikes to a surge in the price of oil.

I believe the selloff in the U.S. markets has overshot. And based on certain factors, now is the time to buy bottomed-out technology stocks. Specifically, the broadband Internet industry, which has been among the worst of the lot. But first let me tell you why the big picture will become more benign for investors.

The price of oil will drop

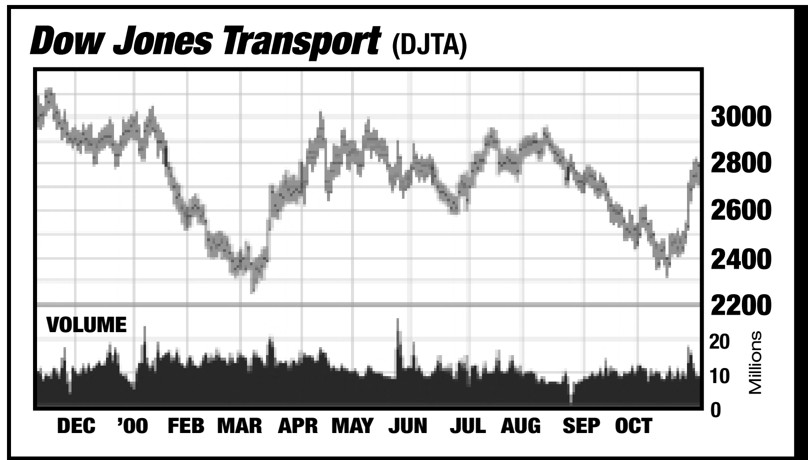
Oil is a cyclical industry that takes from one year to eighteen months to cope with changes in supply and demand. I believe the price of oil has topped and is heading back into the low US$20s. Prices recently plunged about US$1 a barrel in anticipation of a hike in OPEC's output, the fourth by OPEC this year.

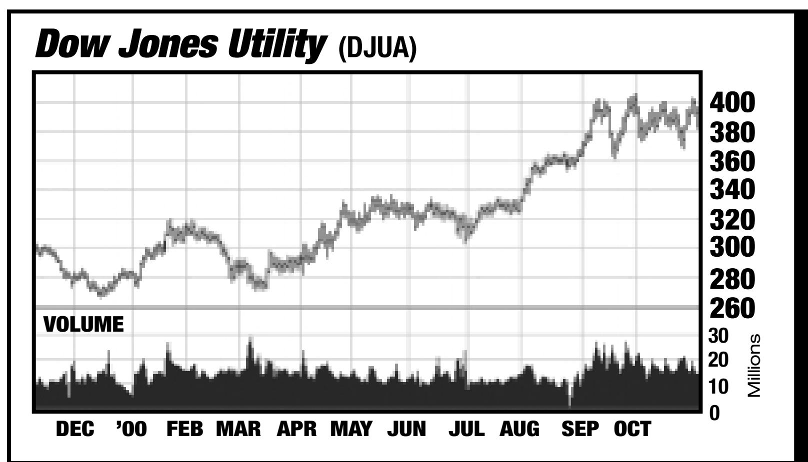
OPEC has an automatic supply increase mechanism. If oil trades above US$28 a barrel for 20 straight business days, then OPEC spits out an additional 500,000 barrels a day.

Liquid gold

Currently, all excess liquidity is going to the Middle East. This has a negative effect on the Far East, since global fund managers sell Asia first because it is the lowest quality.

If oil drops, that frees up liquidity for other assets – namely second-tier stocks. Lower oil prices will be beneficial for Asia and U.S. small caps.





Cheaper oil also benefits transportation companies. We are just starting to see a trend reversal as the transports factor in a lower oil price. The transports have been on an upswing.

Utilities have also been rising. Both of these are leading indicators. Obviously the utilities will benefit from cheaper oil and lower interest rates.

Soft is good

Furthermore, there is every indication that the mythical soft landing is actually going to happen. The wealth effect bubble of personal spending is moderating. Personal consumption rose by just 2% in Q3, and core inflation rose by only 1.9%. This isn't the rabid double-digit inflation coupled with high energy costs and skyrocketing gold prices that so many 45-year-olds keep warning me about. Gold is priced at US$265 an ounce. Not even close to US$800.

I believe these conditions leave room for a 50 basis point cut in interest rates by the Fed in 2001. Anyone who has been in the market over the past three years knows that when the Fed cuts rates, Wall Street turns exuberant.

Further catalysts for earnings growth and a bullish 2001 include massive spending by Congress from its record surplus. Pork might be bad for long-term economic gains in this country, but it's fantastic for short-term increases in earnings.

Opium dreams

To understand Asia, you have to understand that these countries are still shaking off the effects of the "Asian contagion" currency crisis of two years ago. 1999 saw a tremendous bounce off the bottom as most of these countries roared back from the brink. South Korea was the best-performing market in 1999. Governmental reforms, IMF assurances and a spring tide of foreign liquidity caused a sucker's rally from an oversold position.

In 2000, a series of stalled bureaucratic efforts, trouble in the chip-making segment, and the usual political scams, graft, and murder, have caused investors to flee Asia and look to the U.S. as a safe haven.

Sunspots and tea leaves – Asian maven contagion

Given the looming possibility that the U.S. slowdown is real and that the Fed eases up on rates in Q1, owning a large Asian exporting company is bad unless you believe it can win in the event of a U.S. market slowdown. I would put Sanyo and Nissan in this category.

When they look at Asia, most people like to see a stable government and a high tech corridor. In this case, Korea, Taiwan and Malaysia are above-average choices – except that they are heavily dependent on electronics. South Korea has the additional benefit of an increase in limited trade with the North, coupled with easing military tensions.

China plots

China, not Japan, has been the mainstay of Asia for the past few years. But I believe it's vastly overvalued, suffers from translucent accounting and is heading for a generational change in cadres that is likely to cause some level of political upheaval. The simple comparison is Gorbachev's takeover in the Soviet Union and the resulting glasnost. I say simple because China has had capitalist mechanisms in place since the late seventies.

Whatever happens, China remains the engine of growth in this area, with GDP surging by more than 8.2% annually for the past few years. That said, I'm not buying China until its economy blows up.

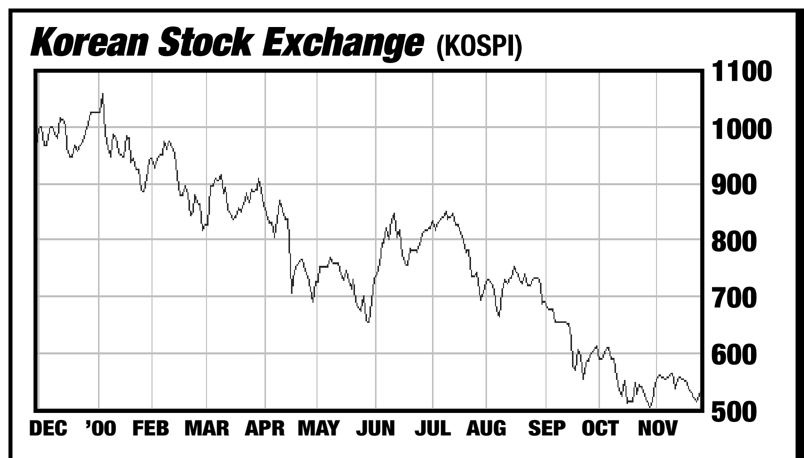
Indonesia and the Philippines

Indonesia, Thailand and the Philippines are the three midgets of Asia. Indonesia is a conglomerate of cultures and islands run by a blind cleric whose powers seem to be deserting him daily. But given the extremely cheap valuations on the Jakarta Stock exchange, anyone with a contrarian streak has to look at the two major telecom stocks, **IIT:NYSE** and **TLK:NYSE**, both of which are trading at or near liquidation value.

The Philippines are saddled with a bad B-movie actor as president who is deeply embroiled in a bribery scandal. But the biggest problem is that they can't seem to get their budget under control, and continue to incur deficits of greater than 5% of GDP. I would look for a great deal of value before buying any asset in the Philippines.

First in, first out

Asia is always last in, first out. Buy Asia after run-ups in the U.S. and Europe. Sell faster as well. Local investors are less sophisticated and tend to overshoot the top and bottom. This can be beneficial when following the trends. Look for the fat 50% in the middle and



give the tops and bottoms to the pigs.

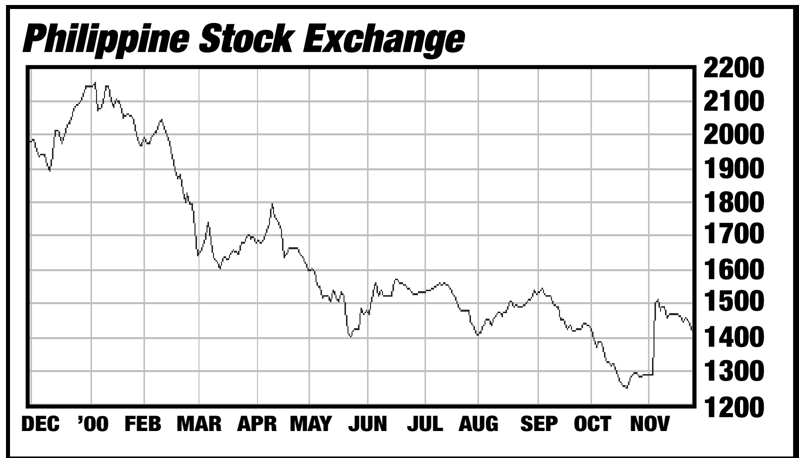
How slow is slow

The biggest question in the global economy is whether or not the U.S. economy will have a soft landing or a recession – and whether or not it is already priced into the market.

How much, exactly, do we pay for slower earnings? All things being equal and given the unknowable, I am one of those who believe that things will get better. It's October and the bottom of the NASDAQ has been tested; and if my arguments hold, greater liquidity in the global economy is more likely than less.

Except for China, most of Asia is trading at multi-year lows. Japan is back to 14,000 on the Nikkei 225. Hong Kong is on the bottom of its range. Malaysia is 30% off its highs. The Philippines are down almost 50%. And South Korea has dropped from 1,066 to 485!

If you're not looking for a turn-around story in Asia – you ought to be. Stay tuned and look for Asian buy recommendations in upcoming *Taipan* issues.



Updates:

Capstone continues its downward spiral – Taipan laughs all the way to the bank.

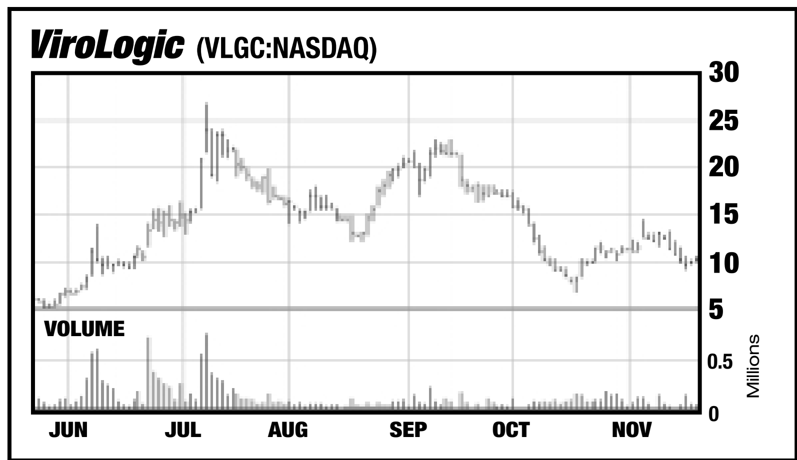
I love it when we get these things right. As **Capstone (CPST:NASDAQ)** continues its downward spiral, we continue to make money hand over fist. Months ago, I urged you to short this stock at US$90; now it's at US$25. That's a quick 72% profit in less than two months.

The exit point is three days to a week after December 26, 2000. Our stop-loss is at US$60. Plan to cover if the stock dips below US$15 or during any major drop after Christmas. I'll update the *Taipan Hotline* as events unfold.

Great call on ViroLogic

The lockup period for **ViroLogic (VLGC:NASDAQ)** has expired and 10 million shares have become available. Based on our "Flying V" lockup model,

I recommended that you buy it three days to a week after the shares unlocked *and* it crossed its 38-day moving average to the upside. This trading event happened exactly as I had anticipated: we are now up 33% in less than a week.



I believe we will see the north side of 20 over the next few months. We bought this stock at US$10.50, now it's at US$14.50. We will sell during a rise, the upside of the current trend line, at some point around January 1, 2000. Put in a stop at US$10.50. I don't want to lose money if this goes against us.

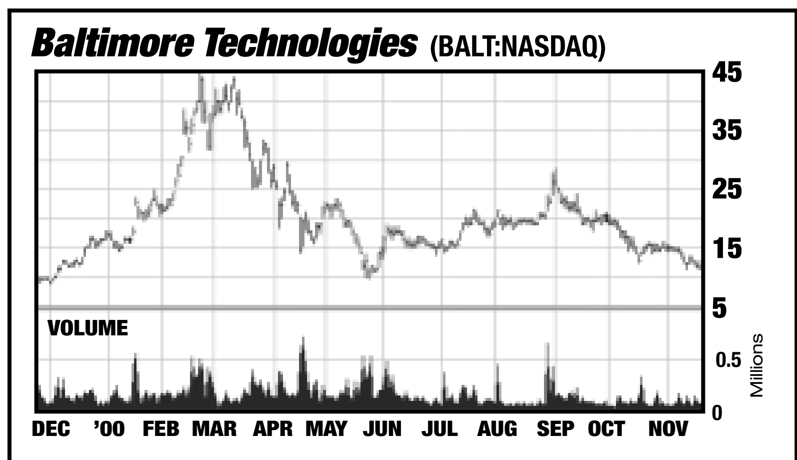
If you're new to this stock, ViroLogic is a biotech company that develops products to improve the treatment of viral diseases. With a technology that goes by the name PhenoPhase, ViroLogic wants to become an important player in the treatment of AIDS and hepatitis B and C.

All about AIDS

Commercial sales of PhenoPhase HIV were US$1.9 million for 3Q (ended September 30, 2000), compared to US$0.3 million for the same period of 1999. Sales for the first nine months of 2000 were US$4.7 million, compared to US$0.6 million for the corresponding period in 1999.

Operating costs and expenses for the three months ended September 30, 2000, were US$8.4 million, an increase of US$3 million for the same period in 1999. Operating expenses for the nine months ended September 30, 2000, were US$22.2 million, compared to US$11.7 million for the same period in 1999.

In other news, ViroLogic has announced an agreement with **Bristol-Myers Squibb (BMY:NYSE)** to jointly educate physicians about HIV resistance testing and to conduct important new drug resistance research. Under this agreement, the companies will sponsor a series of Continuing Medical Education programs for physicians on the topics of HIV therapy and drug resistance.



Bulletproof Baltimore

Though it has taken a beating of late, **Baltimore Technologies (BALT:NASDAQ)** continues to move ahead.

Since the beginning of the new millennium, BALT has outperformed the FTSE 100 by at least 150%.

While the tech/Internet sector was dropping to its knees, BALT was working out deals with Commerce One and Cable & Wireless. Individuals were finally waking up to just how important security and authentication really is.

BALT has come out with a steady stream of new applications for security products: wireless e-commerce solutions, digital TV commerce, transactions over palmtop computers and security for Java applications.

They remain the most undervalued major leaguers in the industry. Annual revenue for the coming year is estimated at US$1 billion.

Part of this revenue stream will come from deals like the one Baltimore Technologies recently inked with **Motorola (MOT:NYSE)** to provide solutions for secure and trusted transactions via the wireless Internet. They're working to develop secure, integrated wireless for the digital Swiss army knife I mentioned above, ranging from phone and personal digital assistants to next generation "personal trusted devices." Whatever that means.

Media 100 heads upstream

Media 100 (MDEA:NASDAQ) has had quite an impressive 3Q. They acquired 21st Century and J2 Digital Media, launched their Streamriver Networks services division and enabled web designers to author interactive content for the Web with real time performance via Media 100 I.

If you're not familiar with Media 100, they're one of our favorite providers of software for streaming media on the Internet. Net sales for 3Q increased to US$19.3 million, compared to US$16.9 million reported in 3Q 1999. Net income was US$1.3 million, compared to US$794,000 for 3Q 1999.

With Streamriver Networks, their streaming media services business has grown nearly 500% over the prior quarter. Their 3Q results are evidence of the strong demand for Streamriver's services and the overall growth potential in the streaming services market. They plan to open a new facility in Hollywood, California, later in the quarter.

In other MDEA news, they've announced that they are working with Intel Internet Media Services to provide high-bandwidth hosting for Internet broadcasters. Intel plans to work with MDEA's Streamriver Networks to provide a streaming media hosting infrastructure from Media 100's encoding and hosting centers. This will allow MDEA to offer its Internet broadcast clients a global network of high-performance streaming media hosting capabilities.

Also, they have announced the launch of Cleaner 5: Real System Edition, an interactive streaming media encoding and design solution developed to support RealNetworks' Real Audio 8 and RealVideo 8.

The Media 100 play is based on the wide acceptance of broadband Internet and digital

television. It looks like a good future speculative buy at current levels.

On the move

Our pals at **VerticalNet (VERT:NASDAQ)** are acquiring SierraCities.com for US$133 million in stock, to create a credit and financing service unit named VerticalNet Credit for its B2B communities.

Valued at US$7 a share, SierraCities has developed an Internet-based system allowing small businesses to obtain equipment leases and term loans of less than US$100,000. They've successfully processed more than 300,000 applications and originated more than US$3 billion in loans and leases.

In other VerticalNet news, they've launched an extensive customer service initiative to provide customer support and satisfaction across all levels of the industry. Sounds like a great idea to me. Everyone knows that if your customers are unhappy, business is going to suck. Customer satisfaction should always be top priority for B2B companies such as these.

For the 3Q ended September 30, 2000, net revenues increased 38% to US$73.7 million from US$53.6 million in 2Q. This was a US$68.5 million increase over the same period in the prior year. The company's cash loss improved to US$17.7 million from the prior quarter's cash loss of US$18.8 million.

The pain…when will it end?

It seems as if **Talk.com (TALK:NASDAQ)** has gotten into some legal tangles with **Traffix Inc. (TRFX:NASDAQ)**. It all started when TALK terminated an extended marketing deal with Traffix because of an alleged breach of contract. TRFX is now seeking damages through an arbitration hearing, contending that the termination was unwarranted. 47% of TRFX's 3Q and 21% of its revenues for the first nine months came from the original agreement.

The contract had been extended to September 30, 2002, and TRFX was expecting to add 50,000 new customers to TALK per month. We'll keep you up to date.

Valence Technology Up 14 Percent

Months ago, we urged you to take part in **Valence Technology (VLNC:NASDAQ)**, Taipan's play on advanced rechargeable batteries for wireless services. Back then it was at US$14. Now it's at US$16. That's a quick 14% profit if you bought in.

Revenue is expected to grow from US$1.2 million this year to US$25 million next June. The only bad thing is that their losses are expected to continue until 2002. *Taipan* still has a conservative one-year price target of US$40.

Valence has announced that Quantum Corporation, a leading data storage provider, has selected VLNC's advanced lithium-ion polymer cells for the new version of their Rushmore eSystem Accelerator, which encompasses solid-state disk technology.

The lithium-ion polymer batteries are lighter, ecologically safer and more malleable than standard batteries. Quantum is in the process of final design and expects to provide VLNC with a production order later this month.

Other predictions...

The largest tidal wave ever created in the Atlantic Ocean will originate from an underground volcano due west of the Canary Islands. The resulting tsunami will flood the east coast of the United States from Charleston to Manhattan and run so far up the Hudson as to wet the feet of Governor Pataki.

The Oakland Raiders will find a way to move back to Los Angeles. San Francisco real estate prices will fall 7%. SUVs will lose market share.

Government gridlock will continue. The first American will be cloned. A two-line 1040 will be established by the IRS – OK, that last one was ridiculous. You will have a chance to vacation in outer space.

The Boston Red Sox will win the World Series.

AttackofthePseudoriche

FEAR AND GREED ARE WRESTLING FOR THE SOUL OF THE WHINING CLASS. WANT TO KNOW WHO'S GOING TO WIN?

By Adam Lass

It's last call, folks. Say bye bye to the 20th century. I don't want to get in a big fight about it, so just accept it: Weeks end on Saturday, years end on December 31 and centuries end on double zeds, no matter what the great unwashed or the politicians and pop-scientists who suck up to them say. So raise your glasses and we'll toast the real end of the 1900s.

But first, let's close the books on the last year of the old century. And what a year it was. 2000 came in like a (cowardly) lion and is going out like a squealing pig on the chopping block.

This time last year, folks were stocking up on Evian, cigarettes and canned beans in anticipation of the Y2K computer disaster, the greatest non-event since Comet Kahoutek neglected to plow into the planet. (I wasn't immune to the hysteria… I've still got half a case of Jack Daniels left in the basement. It's just a question of what you think is important.)

The great speckled herd

And what the herd thought was important in the first quarter of '00 was how stinking rich they were going to get on Internet IPOs, and the really big toys they were going to buy with the profits. But hey, why wait for real money when you can borrow against your theoretical future gains? (Programmers call overhyped products that only exist in the marketing department's feverish imagination "vaporware." Does that make these companies' phantom profits "vaporcash?")

Suddenly, no mere car was big enough for the hot new spending class, the "pseudoriche." You had to have an SUV the size of a Greyhound bus just to go down to the 7-11 for chips and beer. Better supersize that order. And while you're at it, supersize my house too.

Now every family of three has a brand new twenty-room house on a little postage stamp lawn. Never mind that mom and dad are working 120 hours a week between them to cover the mortgage, while junior's down at the mall getting his ya-ya pierced just to get their attention for five minutes. It's new paradigm time: the Net's going to make everything incredibly cheap and easy.

There ought to be a law… maybe the law of gravity will do

Wine will flow like water and the streets will be lined with gold. I think I've heard this one before. Oh yeah, Econ 101: What happens if everyone thinks they're rich at the same time? Suddenly you've got unlimited wheelbarrow-loads of theoretical e-cash chasing an expanding but still limited supply of real goods, and the inflation specter starts oozing out from under the table like a bad smell at a formal dinner.

Adam Lass has been a marketing consultant, business owner and entrepreneur for over 20 years. In addition to his role as editor of Penny Stock Fortunes and The CXS Trader, and co-editor and technical analyst of Options Underground, he has contributed to seven major financial newsletters and written numerous special investment reports on topics ranging from international intelligence, crude oil pricing and the Asian currency crisis to U.S. taxes, high-tech stocks, and precious metals investing.

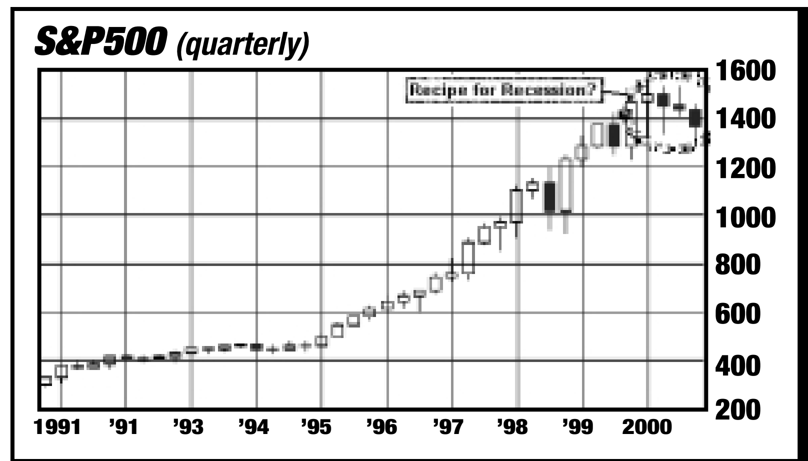
Adam's fascination with technical analysis dates back to his early days as a wholesale purchaser, when any clue to the public's future spending habits – Treasury reports, stock trends, interest rates, even the Farmers Almanac – could make or break his business. His blend of deep insights into the consciousness of the herd and strict growth and value analysis gives him unique foresight that has enabled him to reliably guide his readers around the minefields of today's incredibly volatile market.

It didn't take the bright boys at OPEC very long to catch on either: Hey, if all these American fools are locked into five-year loans on Lincoln Navigators and thirty-year balloon mortgages on faux-Georgian mansions, they're going to need oil by the million-drum load to fuel and heat these monstrosities. And those boys don't need the Internet to get rich when they can raise the price of oil to US$35 a barrel with a phone call.

The pseudoriche whined and bitched. Commissions were formed, inquiries were made and names were taken. The long and the short of it: Sorry boys and girls – oil is still over US$30 a barrel, and that means more inflation.

The ghost at the banquet

By late spring, the time-payment crowd was starting to feel the pinch. They were living on borrowed grace and getting nervous as hell about it. Alan Greenspan and his inflation hawks at the Fed were looming over the party like Banquo's accusing ghost. Their solution to the overextended bull run was to scare the jittery herd into stampeding for the exits sooner, because later it could only be worse.



And stampede they did. The brutal purges of summer and fall '00 will go down in the history books – and not just for the most incredible single day moves ever. After ten-odd years of straight growth, with few interruptions lasting more than a month or so, the S&P 500 is currently suffering through what can only be called a recession – three straight down-quarters in a row.

If there is any Wall Street maxim that holds water, it is that the market is always forward gazing (however myopically). Clearly, a huge group of investors in the S&P 500, the broadest measure of the U.S. market as a whole, perceive a significant decline in the value of the economy over the next few months. But a considerable minority still argue that this retreat is simply a re-rating of overblown stock prices from the bubble, as evidenced by the retreat's pause at the 33% mark of the previous 21-month run-up. And they're putting their cash on the line. One of the most amazing aspects of the recent crash is the consistent strength of the buyers at the bottom of each trough.

Whether or not the S&P's recession converts into a full-blown national recession will be determined more by the interplay between the herd's guilty fear of getting caught red-handed holding incredibly overpriced dot-gones and its inherently larcenous desire for "steals," like Lucent below US$20 or Intel at its 52-week low. This means more than any actual connection between the falling indexes and falling productivity numbers.

Democracy's finest hour?

These figures are beyond the ken of most of the new class of paycheck-to-paycheck

investors. If they can't get it in ten second bites from Dan Rather or that cute stock chick on cable, they don't want to know.

And now the same crowd who brought you the grand tumescence of the tech-stock bubble – and its premature ejaculation – are going to cram their hot sweaty masses into voting booths to pick a president who will carry on the fine work that Bill Clinton didn't do to keep the boom going another couple of months.

Yeah, that's right. I'm writing this *before* the election. I don't know whether Junior or the stiff will win, and I'm still going to make predictions about next year's market. I can do that because I don't think either one will be able to change the cards he's been dealt.

(I will point out that the folks who know these two losers best have already weighed in with an incredible yawn. In a recent Zogby poll, Gore's own home state of Tennessee is tilting toward Bush, while Governor Jeb, despite Gore's incredible bungling of the Elián affair, can't quite seem to deliver Florida to his brother.)

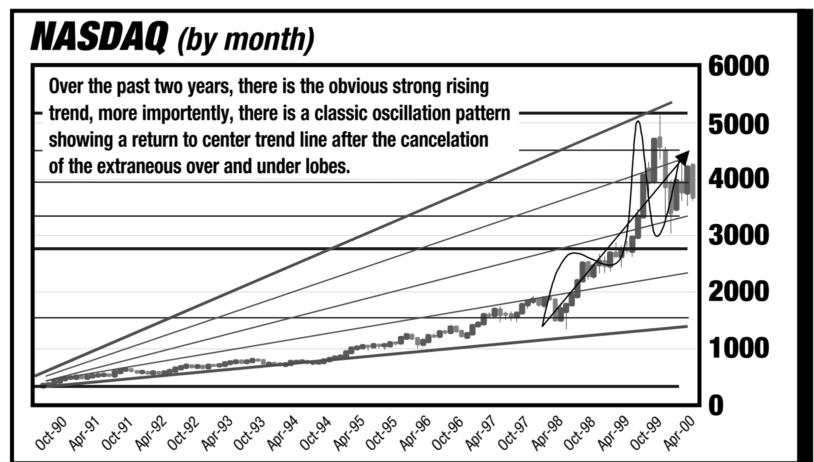
Crystal ball time

Enough sociological (scatological?) rambling. No Tuesday morning quarterbacking is going to tell you what to buy next year. But a little number crunching and some solid chart analysis can yield a reasonable set of odds to govern the decisions you make in the new millennium. So let's get technical.

Since we're trying to take a long view here, let's start with a ten-year monthly NASDAQ chart. Even a blind man can see the incredible bubble that began with the twenty-month, 3,750 point run-up from October '99 to March '00 and ended with the early summer crash back to reality around the 3,000 level.

But did it really end? The long chart reveals an interesting fold concealed in the numbers. A strong oscillating pattern has established itself around the marked upward trend line. Once the extraneous lobes are factored out, the upward trend reappears as strong as ever. Even if we just return to running along the long ten-year centerline, we still retain 66% of our long-term gains: a reiteration of the market's tendency toward retracements in thirds.

The thumb on the scale



Let's weigh the up- and downside pressures. On the one hand, it looks like Clinton is going to stick whoever follows him with the bill for his "strongest economy ever," much as Reagan stuck Junior's dad with the costs of crushing the evil empire in the '80s.

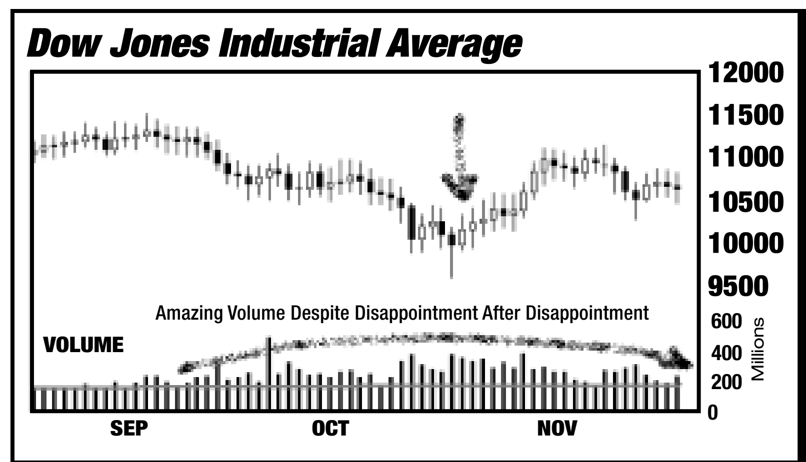
That means that some cash from the almighty surplus is going have to get spent on a few unaddressed problems, like a military sector in bad need of refurbishing after a couple of small wars in Europe and the Middle East. Look for some additional spending on pills for old folks, a quick patch for Social Security and some half-hearted tax rebates, mostly for

guys who can afford the rent on the Lincoln bedroom.

Add on the continuing drag of expensive oil and natural gas on the "real" economy – you know, the tangible stuff that has to get built or shipped or heated – and you get a pretty solemn picture.

Greed always wins

On the other hand, the herd's taste for high-tech riches has been thoroughly whetted by the recent run-up. Not only are they ready for more, they're desperate for it. (Remember all those insane car and house notes? There's no way these overextended millionaire-wannabes can cover those notes with nothing but their anemic biweekly paychecks.) And the herd is notorious for losing sight of long-term problems like inflation, until they get squeezed so hard that the sum total of their ever-shrinking savings won't cover a quart of milk and the gas to go get it.



So here's my call for next year: No matter who wins the election, we'll see a recovery in the NASDAQ commencing around – well, now, actually. Look for a move up to 5,000 on strong Q1 biotech announcements that will peak around February. Look for a backslide to the long trend's centerline at 3,900 on news of war in the Middle East around Easter, accompanied by long gas lines for about two weeks (at which point, the gas companies will be accused of price gouging and will suddenly find more available supply).

Look for the market to rally for a summer high of around 4,750 and a Q3 back-to-school dip back to the 3,500 mark on weak summer house-building numbers. I expect to close the year up 1,500 from our present low of 3,000.

Currently, I like the heavily underpriced tech sector, although I must say that I prefer profitable second-tier support stocks to the still-bloated figures that Lucent and its ilk are sporting. I think that both real estate and banking are in for some very hard knocks. And I think the damn Yankees are going to take the 2001 World Series. (Come on, they've won one out of every four in this century. You think that's going to change in the next? Gedouttahere!)

The World Investor Review and Forecast

OUTLOOK FOR ISRAELI AND MIDDLE EASTERN STOCKS

by James Passin

James Passin manages the Firebird Global Small Caps Fund for Firebird Management LLC and is a Contributing Editor with Taipan. Mr. Passin joined Firebird as a Portfolio Manager in July 1999. For the four years prior to joining Firebird, Mr. Passin was Taipan's and Taipan Trader's Director of Financial Research.

Mr. Passin is known for his brash contrarian approach to stock picking. His maverick views on the market and stock picks have been cited in major newspapers around the world. James Passin is a regular speaker at financial conferences. Mr. Passin, a Kentucky Colonel, studied philosophy and the classics at St. John's College.

Passin's fund is currently a shareholder in ECTX, ELBTF, ORCT, ARMX, LCN, WMCO, CLCX. Several funds managed by Firebird are currently shareholders in UPRO, SGTZY, LUKPY, AOMOY, and VNFT. Passin's views are strictly his own and not necessarily those of Taipan or Firebird Management.

Soldiers dragged through the streets like Hector before the walls of Troy… Riots… Terrorism… Protests in neighboring Arab countries… War cries from Sadism Hussein…

The Middle East is on the verge of total war. Oil will hit US$100 per barrel. Tel Aviv will be incinerated… A new Islamic alliance will initiate an apocalyptic Holy War against the West… And every last Israeli will be driven into the Mediterranean…

At least, this is the scenario that the mainstream press is trying to sell you. While violence is currently escalating in the Middle East, the doom-and-gloom scenario is nothing more than a retro-colonialist fantasy.

Pan-Islamic unity is a myth. Yes, there are fanatical Islamic sects all over the world. A minority of the fanatics belong to highly organized, well-financed organizations that know how to take advantage of political chaos. Crazy governments (Iraq, Libya) attempt to advance their strategic interests by contributing to regional instability. But the idea that the masses in Jordan, Egypt, Saudi Arabia and Syria will unite in some colossal reverse Crusade is absurd.

The Palestinians have raised the stakes in negotiations for a permanent peace settlement. This was achieved by taking advantage of the U.S. presidential cycle (as a lame duck, Clinton was unable to act as a credible negotiator). Israel's recent withdrawal from Lebanon shows its willingness to take radical action to promote peace. I believe that *the greater the current cycle of bloodshed, the greater the likelihood of a permanent peace settlement.*

A New Era of peace in the Middle East would ignite an explosive re-rating of Middle Eastern assets. My Middle Eastern stock recommendations, including **Aramex (ARMX:NASDAQ)** and **Suez Cement GDR (SZCD:London)**, would benefit from this environment.

While the turmoil in Israel has destroyed the market for Israeli tech stocks, there is no fundamental reason for this correlation. Israeli techs like **Elbit (ELBTF:NASDAQ)** and **ECTel (ECTX:NASDAQ)** generate most of their sales outside of Israel. Unless there is a general draft, "blood in the streets" will have absolutely no impact on the day-to-day operations of these companies.

In fact, Israeli tech companies benefit from the shekel depreciation that generally occurs during headline-worthy political turmoil. Furthermore, Israeli techs tend to be under-leveraged, with no long-term debt and large cash balances (thanks to the conservative nature of most Israeli executives), leaving their balance sheets impervious to any spike in domestic interest rates triggered by currency depreciation.

Unfortunately, there is a lot of Israeli money in Israeli tech stocks. During times of sustained political unrest, the Israeli money tends to withdraw into more conservative assets. There is also a lot of retail money in the NASDAQ-listed Israeli techs, which tends to overreact to CNN reports.

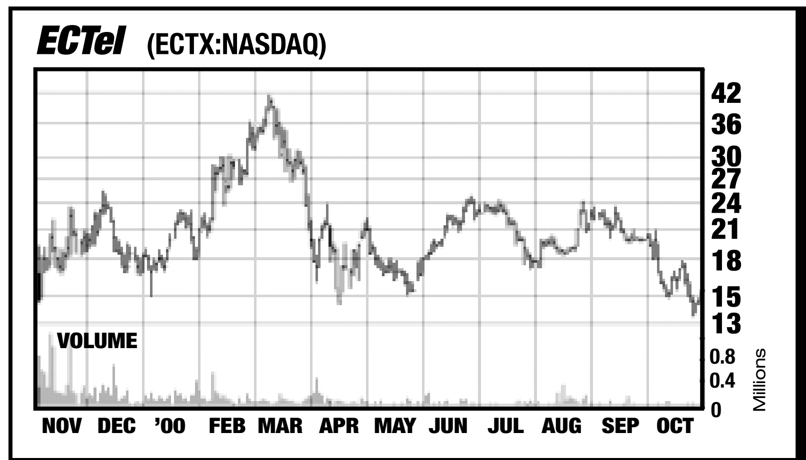
The collapse of U.S. tech stocks hasn't helped their Israeli counterparts. Mainstream investors are looking for excuses to dump tech stocks. I have never lost money buying Israeli techs during Middle Eastern unrest. *Time to feed.*

ISRAELI TECH CHEAT SHEET

Company	Decline from 52-week high	Market Cap (USD)	Liquid assets (USD)	Trigger
ECTX	66%	$240,000,000	$42,000,000	Blow-out earnings & no float
ELBTF	72%	$140,000,000	$95,000,000	Contop private placement
ELRNF	53%	$568,000,000	$86,000,000	Management always delivers
ORCT	88%*	$113,000,000	$107,000,000	DSL shortage

Backs out TIGA spin-off

ECTel (ECTX:NASDAQ)



Don't worry about death spirals in Internet, telecom and fiber optic stocks. **ECTel (ECTX:NASDAQ)** remains an outstanding pure play on the growing market for quality of service solutions for telecommunication networks. According to my Tower of Babel thesis, the late Internet Bubble has funded the fastest build-up of communications networks in the history of the world, resulting in the desperate need for network performance monitoring, fraud prevention and interconnect billing – mundane yet highly profitable markets for niche players like ECTX.

ECTX started as a supplier of intelligence equipment to governments. Using ECTX's technology, government agencies can monitor voice, fax and data traffic. Applying its vast expertise in monitoring communications traffic to commercial telecom markets, ECTX was able to transform itself into a highly profitable growth enterprise – in a market with a huge barrier to entry.

While ECTX is a recent IPO, it is already obscenely profitable. ECTX has expanded its gross profit margin to 60%. Sales continue to explode. The beauty of ECTX's business is that it can address three markets with a single hardware platform, allowing for cross-selling of high margin software products to its installed customer base.

At just 2x trailing sales, ECTX is absurdly undervalued. It has a forward P/E of just 15, compared to a long-term estimated growth rate of 40%. I anticipate that ECTX will continue to announce outstanding financial results over the next several quarters – as well as continued new customer wins.

Parent company **ECI Telecom (ECIL:NASDAQ)** owns 76% of ECTX's shares. The free float is extremely tight. This leaves ECTX vulnerable to an explosive rally at any time. At the same time, ECTX's tight float will render it utterly illiquid in a bad market.

ECIL is planning to restructure over the next two years. The restructuring could potentially result in the distribution of ECTX shares to ECIL shareholders. While this potential stock overhand could keep a lid on the stock, the eventual increase in liquidity (should the spinoff of ECTX shares to ECIL shareholders occur) ought to make the stock more attractive to institutional investors.

I remain impressed with management. **I rate ECTX as a Strong Buy at current levels.**

ELRON'S HOLDINGS

Wholly owned subsidiaries:
Elron Software
Elron Telesoft

Public subsidiaries:
ELBTF ESLTF
ZRAN NETM

Private subsidiaries:
Netvision
Wavion
Mediagate
Kidum-Elron IT
Servicesoft
ArelNet
Oren Semiconductor
Chip Express
DEP
Witcom
Given Imaging
3DV Systems
OLB.com
Gemini Israel Fund, LP

Elron (ELRNF:NASDAQ)

I have followed **Elron (ELRNF:NASDAQ)** since 1996. ELRNF remains the premier quality play on Israeli high tech. Back in 1996, Wall Street analysts (the few that followed ELRNF) tried to convince management to transform it from a "holding company" into an "operating company." Now, Wall Street loves "incubators," which is an excellent description of ELRNF's business model. ELRNF has been successfully incubating tech companies for over 30 years. However, unlike "New Age" American incubators (CMGI, SFE, etc.), ELRNF seeds, builds and sells real, lasting, profitable companies, instead of force-feeding the public with temporarily fashionable broker stories.

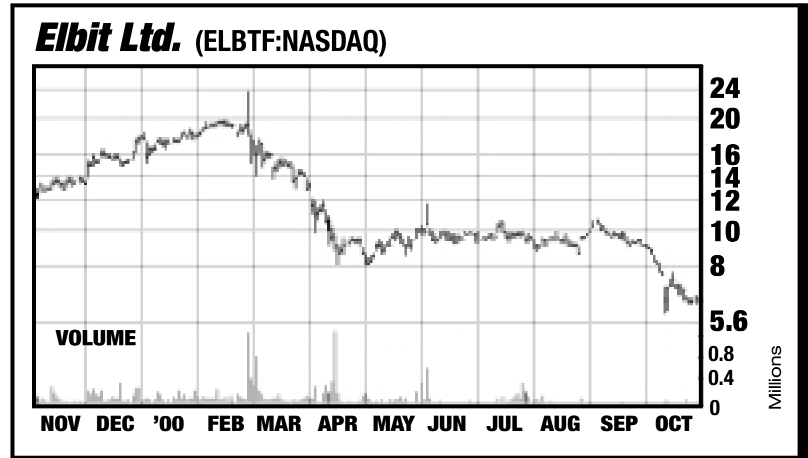
Since I initiated coverage, ELRNF has paid out substantial cash dividends to shareholders, revealing the company's strong commitment to creating shareholder value. With the exception of EMITF and ELT, ELRNF has always created value for minority shareholders in its public subsidiaries – a clear sign of the company's grand design to build lasting value.

ELRNF remains a Strong Buy.

Elbit Ltd. (ELBTF:NASDAQ)

Elbit Ltd. (ELBTF:NASDAQ) has been a spectacular – and volatile – performer for *Taipan* subscribers. Based on my knowledge of the true value of ELBTF's high tech subsidiaries, I initiated coverage in September 1998 at US$2. ELBTF subsequently rose as high as US$23 – before crashing back down to the mid-US$6 level. Including the US$1.13 cash dividend paid to shareholders, ELBTF remains a huge winner for investors who bought on my initial recommendation.

Management has proven time and time again that it knows how to seed, grow and exit high-tech startups. ELBTF invested a few million in Peach Networks and flipped its majority stake to Microsoft (MSFT:NASDAQ) for US$40 million (this valuation seemed insultingly low during the Q1 Internet bubble, confirming for me the difficulty of negotiating with a ruthless monopoly power). They invested just a few million into HyNex, then flogged it to Cisco (CSCO:NASDAQ) for US$120 million. And ELBTF took on a US$80 million bank credit line to finance **Partner (PTNR:NASDAQ)**, subsequently paying its debt down to zero with its IPO proceeds – leaving ELBTF with a 12.4% equity stake in PTNR with a zero cost basis.



Incredibly, ELBTF was able to finance this growth *without diluting shareholders by a single share!* These guys are financial geniuses. ELBTF is currently sitting on US$90 million in cash and liquid assets. The recent large cash dividend distribution demonstrates management's unwavering commitment to creating value for shareholders.

Contop (60% held by ELBTF) remains an exciting player in the mobile commerce market. Contop's technology allows cellular customers to convert their phones into virtual credit cards. Initial applications include parking meters and vending machines. Unlike competing m-commerce solutions, Contop's technology does not require WAP, GPS, 3-G, or any fancy wireless infrastructure to work. Contop works on any existing digital wireless network, allowing entrenched cellular providers to add value without any elaborate capital expenditures. I anticipate that ELBTF will sell a minority interest in Contop in a private placement to VC investors in Q1 2001, *valuing the company at US$100 million+.*

ELBTF's recent move into B2B e-commerce is a logical extension of its earlier investment strategy. Given the current bloodbath in e-commerce stocks, I believe it's an excellent time to invest in select private Internet deals. If history is any guide, ELBTF should be able to monetize its investments over the next several years.

PTNR, Israel's GSM cellular provider, is severely depressed, declining 78% from its 52-week high. PTNR is a principal component of ELBTF's value in the market. There remains a high degree of correlation between the two stocks. I've heard rumors that the violence in Israel has materially boosted subscriber numbers (Israelis are rushing out to buy cell phones for every family member), which should help PTNR meet or exceed year-end subscriber targets – a positive for the stock. Even a modest bounce in PTNR would help support ELBTF at higher levels.

ELBTF trades at a massive discount to net asset value. Using a highly conservative valuation methodology (assuming that ELBTF is unable to mitigate tax liability or add any value to its new privately held start ups, and that PTNR does not bounce from current levels – all of which are unlikely scenarios), <u>ELBTF has a net asset value of</u>

US$11.80 per share. The stock would have to gain 83% just to trade at NAV. In my view, this discount is entirely the result of panicked sentiment towards Israeli assets. There are a number of catalysts over the next twelve months that could re-rate ELBTF to fair value. Furthermore, I believe ELBTF will rapidly grow its NAV over the next two to three years.

I continue to rate ELBTF as a Strong Buy.

ELBTF's assets as of 10/26/00:

Strategic holdings	Stake	Value (USD)	Valuation methodology
Cash	100%	$35,000,000	balance sheet
1.5 mil. CSCO shares	100%	$53,000,000	market less 35% Israeli tax
Contop	60%	$60,000,000	private estimate
Dealigence	48.3%	$2,350,000	book value
Textology	55%	$3,000,000	book value
ICC	25%	$2,500,000	book value
IstarkeyINET	40%	$2,000,000	book value
Non-strategic holdings	**Stake**	**Value (USD)**	**Valuation methodology**
PTNR	12.4%	$98,000,000	market less 35% Israeli tax
Real estate	100%	$14,000,000	market
EVSN	53.6%	$4,350,000	market
Misc.	n/a	$2,000,000	private estimate
Disputed tax	n/a	($14,000,000)	worst-case

Total Net Asset Value:..*$262,200,000*

Market cap:..*$142,710,000*

Discount: *46%*

Orckit (ORCT:NASDAQ)

Orckit (ORCT:NASDAQ) has turned into an outright disaster. I initially recommend ORCT around US$23 as a pure play on DSL. While the DSL revolution is in fact occurring (we just replaced our office's T1 line with DSL), the stock price of ORCT has crashed and burned. Of course, you need to add back the value of **Tioga (TIGA:NASDAQ)** in any comparison of ORCT to its historic trading ranges.

While management made a number of strategic errors and Wall Street analysts were irrationally exuberant towards ORCT's gross profit margins, the radical decline in the stock price should be viewed in

the context of the crash in tech stocks. It's hard to find a tech stock that it is not down 75% from its peak.

At current prices, ORCT is absurdly undervalued. Their market cap is only US$113 million. This is an absurd valuation for a world leader in DSL. And ORCT has over US$100 million in cash on its balance sheet! If you subtract the cash, ORCT has an enterprise value of only US$13 million.

ORCT is valued at less than 1x sales. If ORCT were a steel company or soda-ash producer, I would accept the valuation. But ORCT is the king of DSL, one of the principal delivery vehicles for broadband to the home and small business.

I don't have a clear view on TIGA. But I don't recommend selling TIGA into Israeli political turmoil. While TIGA is based in California, it seems to trade in line with other Israeli techs.

Despite ORCT's numerous problems, the stock is ludicrously cheap. **Consequently, I recommend ORCT as a Buy at current low prices. I view ORCT as a likely takeover candidate**.

Aramex (ARMX:NASDAQ)

A terrible, boring stock… But an outstanding, exciting business… **Aramex (ARMX:NASDAQ)** has delivered consistent revenue and earnings growth over the last three years, while maintaining a rock solid balance sheet and a rock solid market position. I don't know when ARMX will finally run, but I do know this: ARMX's management knows how to run a shipping company.

At current levels, ARMX is trading at just 0.5x sales, 10x trailing earnings and 1.5x book value – despite consistent earnings growth of 20%. You can rarely go wrong buying a stock with a price/earnings/growth (PEG) ratio of under 0.5.

ARMX is the only Middle Eastern stock on NASDAQ. The float is only 2.2 million shares. When there is demand for Middle Eastern assets, ARMX could explode to the upside… There's no better vehicle for betting on economic growth than to buy a freight forwarding/overnight express company…

The real kicker with ARMX is its investment in e-logistics. In my view, e-logistics is one of the few legitimate e-commerce stories – one that will survive the current Internet bloodbath**. Commerce One (CRMC:NASDAQ)**, ARMX's e-logistics partner, knows how to develop successful e-commerce companies. ARMX's e-logistics operations could soon be worth more than the value of the entire company.

I advocate remaining patient with ARMX and reiterate my **Strong Buy** recommendation.

Suez Cement GDR (SZCD:London Stock Exchange)

Having acquired Tourah Cement, **Suez Cement (SZCD:London)** is now the largest cement company in Egypt. While Suez's board of directors decided not to pay a dividend in 1999 (the cash was needed as a result of the Tourah acquisition), SZCD is now in a position to ramp up its cash flows over the next two years.

Egypt's chronic current and capital account deficits have finally forced the central bank to devalue the Egyptian pound. Interest rates were unsustainably high, hurting the real economy and undermining the long-term prospects for the currency. In my view, the devaluation of the pound was a one-time event.

As a domestic cement producer, SZCD has been hurt by the decline in the currency. They also have some unhedged dollar-denominated loans. In my view, the recent weakness in the stock has been mostly triggered by currency concerns. With a large US$200 million cash balance and continued robust profit margins, SZCD is in excellent financial condition.

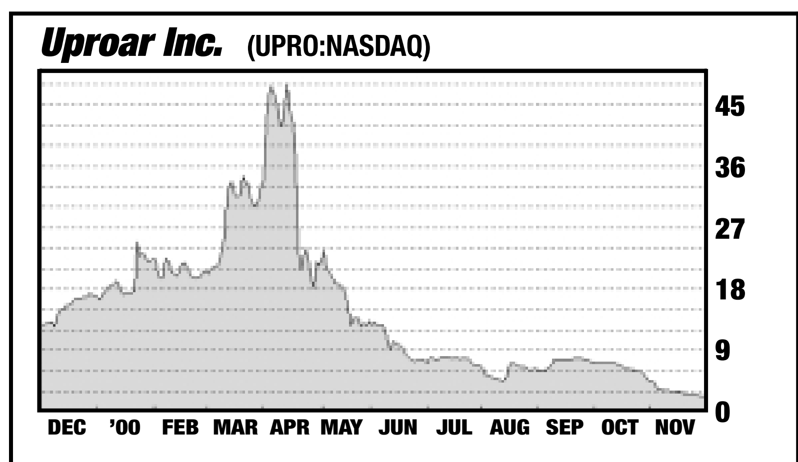
Despite SZCD's giant size (2000E production is 3,900,000 tonnes) and world-class operation (EBITDA margin is almost 50%), SZCD is valued at an enterprise value/tonne of capacity ratio of just US$95. At current levels, SZCD trades at just 7x forward earnings. Considering the estimated 5% supply shortfall in 2000 and favorable demographics (there's a booming population of teenagers, which will result in a surging demand for new housing over the next several decades), SZCD is ludicrously undervalued.

Rumors are circulating that a large international cement company will bid for a controlling stake in SZCD. This could help support the stock in the short term. **Suez Cement (SZCD:London) remains a Strong Buy.**

Outlook for broken Internet stocks

Uproar (UPRO:NASDAQ)

Next time there's a bubble, remind me to sell everything. I initially recommended UPRO when it traded on the Austrian bulletin board as a backdoor play on a NASDAQ IPO. By the time UPRO floated on NASDAQ, the dot-com magic was dead – and Internet stories like Uproar became toxic. The underwriters didn't lift a finger to support the stock. The flood of sellers drove UPRO down into the gutter.



At current prices, it's hard not to like UPRO. The company now has 16 million registered users who generated 1.5 billion ad impressions last quarter – metrics suggesting that UPRO is one of the most important new media companies in the world. With US$93 million in cash and equivalents, UPRO is not going out of business in the near future.

The recent management shakeup could trigger a sustained turnaround. The president/COO was fired and 20% of the workforce was laid off. **I recommend popping an Imodium AD and holding for the January Effect.**

Outlook for New Zealand stocks

The New Zealand equity market is performing miserably. Stock prices are weak and the currency is collapsing. The new Socialist government has hiked personal income tax rates and empowered the unions.

There is an outside chance that a vicious circle could emerge in which the socialist government creates such dire economic conditions that the public begins to demand even more extreme socialist legislation, leading to even greater economic destruction.

Coincident with the destructive policy changes of the new government is the "double dip" in Southeast Asia. Thailand and South Korea are experiencing post-Asian crisis restructuring hangovers that are hurting New Zealand exports. Japan's economy has also failed (so far) to come back from the dead. New Zealand needs a Pan-Asian boom to ramp up its exports.

As an economy driven by agriculture and basic industries, New Zealand is not directly benefiting from the global technology boom. While the biotech revolution offers the potential for countries like New Zealand to convert their sleepy, capital-intensive industries (wool, fish, wine, lamb, etc.) into value-added, high tech cash machines, New Zealanders unfortunately share the biotech phobia of Australians and Europeans.

My bullish call on New Zealand stocks was incorrect. My Kiwi recommendations are roughly flat since I initiated coverage. However, there remains tremendous value in specific Kiwi stocks, including *Restaurant Brands (RBD:NZSE)* and *Fisher & Paykel (FAP:NZSE)*. Now's a terrible time to sell Kiwi assets. A broad regional recovery in Southeast Asia should help sustain a more robust domestic equity market in New Zealand.

Fisher & Paykel (FAP:NZSE)

When I toured **Fisher & Paykel's (FAP:NZSE)** factory in New Zealand, the word *fat* came to mind. Now, the executive offices weren't excessively fancy. But when management started boasting about the *meat pies* in the company cafeteria, I knew there was a problem with corporate governance.

FAP is a world-class manufacturer of healthcare products and whiteware (i.e., durable household appliances). In FY2000, FAP will generate over US$300 million in sales. Their high-tech dishwashers are regarded as some of the most advanced in the world.

But the real value in FAP is its healthcare division. FAP's healthcare products (such as the HC200 ventilator/humidifier) are blockbuster sellers with outstanding gross margins. Unfortunately, the whiteware division consumes most of this cash.

At just 1x sales, 11x earnings, 7x cash flow and 2x book value, FAP is extremely cheap. I believe that FAP is a clear takeover target. An international medical device company could buy FAP and then spin off or sell the whiteware division. There's no poison pill or majority shareholder to block a hostile takeover.

I regard FAP as a low-risk, long-term Buy.

Outlook for gold stocks

The *New Yorker* just ran a sarcastic article on gold bugs (July 17, 2000 issue). It's easy to make fun of die-hard gold bugs. I make fun of them all the time. On the one hand, gold bugs tell you that you're insane for owning tech stocks, since the world is going to

end tomorrow. On the other hand, they will bet the farm on CDNX-listed penny stocks with worthless mineral licenses. I don't get it.

However, it is prudent to invest some of your portfolio in gold or gold-related securities. The publication of the *New Yorker* article suggests we are near the bottom in gold. While gold was insanely overvalued in the early 1980s, it is clearly undervalued today, when you consider the average cost of lifting the stuff out of the ground. And you never know when the world's cult of paper will burn to the ground…

Unfortunately for gold bugs, the central banks don't want to keep any gold in their vaults. Between the gold hedgers, the short sellers and the central bankers, there's too much supply to keep gold above critical support levels – for now.

While I believe in gold as a long-term investment asset, I find the bearish short-term technical signs to be overwhelming:

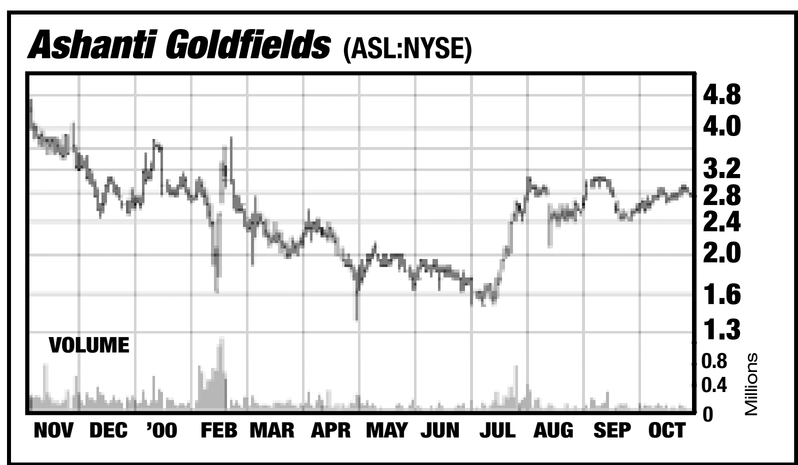
- Even though oil is hitting multi-year highs, gold is hitting multi-year lows;
- Gold continues to decline even in the face of headline Middle Eastern turmoil and terrorism;
- The 12-month gold lease rate continues to decline relative to the T-bill yield; and
- The XAU index is collapsing.

As a contrarian, I want to buy when everyone else is selling. It's an excellent time to begin researching and evaluating gold stocks. But I'm going to wait until there's an absolute selling climax – an event that may be imminent.

I predict that gold will experience a terminal shakeout by Q1 2001. The US$240 to 250 level should mark the bottom. This decline will be followed by a sustained and robust two- to three-year bull market in gold and gold stocks.

Ashanti Goldfields (ASL:NYSE)

Ashanti Goldfields' (ASL:NYSE) aggressive hedging strategy almost bankrupted the company in 1999. Management misled investors, including me, regarding ASL's vulnerability to short-term spikes in the gold price. Ironically, in the 1999 *Taipan Forecast Issue* I predicted the very short squeeze that sent ASL to the brink of total destruction.



ASL was forced to hand over 15% of the company in the form of warrants to creditors (although this can be viewed as a promising sign, since the creditors now have an incentive to let ASL grow the company). ASL was also forced to sell 50% of its interest in the giant Geita mine to Anglogold (AU:NYSE) for US$205 million (plus US$130 million in project financing).

Over the next several months, ASL may be the only investable gold stock in the world. ASL's hedge book benefits from a declining gold price. While this may seem

counterintuitive, the company has been inversely correlated with the XAU gold share index over the last few months. If gold slips far below the US$265 to 270 level, the ASL hedge book will begin to have a substantial positive marked-to-market value.

ASL's board has pledged to "reduce the levels of overcommitment" and to "increase its exposure to any gold price rise." It has not abandoned its policy of hedging (although ASL recently took a US$15 million charge to clean up some of its hedges). I suspect that this is due in part to the demands of creditors. Consequently, ASL will not enjoy support from dedicated gold bug investors (if there are any left). At the same time, mainstream institutional investors are unlikely to bet on an African gold miner with structural liquidity problems.

Based on my short-term outlook for gold, I am maintaining ASL as a Buy. I believe that gold is in the process of bottoming. However, this bottoming process could bring the metal down to the US$240 to 250 level. ASL could pop materially during this selling climax. Regardless of the short-term action in gold, ASL is cheap for one of the world's largest gold producers.

Outlook for Japanese stocks

Casio (CSIOY:OTC)

PDA VALUATION COMPARISON

Company	Market Cap (USD)
PALM	$29,000,000
RIMM	$11,000,000
CASIOY	$2,800,000
Average	$14,200,000

Compared to the vast majority of tech stocks, **Casio (CSIOY:OTC)** has been a rock solid performer. Since I initiated coverage in the March issue of *Taipan*, Casio has been bouncing around in the US$95 to $125 level. Since the company never enjoyed an "Internet bubble" valuation, it never suffered from the crash in Internet stocks.

Casio is positioned to benefit from MSFT's grand strategy to reestablish its global hegemony in the post-PC era. While Microsoft's Windows CE operating system (OS) is widely regarded as inferior to Palm OS and other major operating systems for handheld devices, it would be a glaring mistake to write off the marketing muscle of MSFT. As the market for personal digital assistants (PDAs) expands, the opinions of the gizmo elite will diminish in importance.

Like other Japanese consumer electronics giants, Casio is an expert at both low-cost manufacturing and miniaturization. U.S. and European electronics manufacturers will have trouble competing with Casio over the long term.

Furthermore, Casio has unrivalled marketing and distribution channels. They know how to build a lasting brand. The combination of marketing and manufacturing knowhow is not reflected in Casio's stock price.

At current levels, Casio is trading at just 1x sales and 1.9x book value. Its US$2.8 billion market cap is absurd. CSIOY:OTC remains a Strong Buy.

Uni-Charm (8113:Tokyo)

There's nothing more delightful than cashing in on irreversible demographic trends. And the best way to play Japanese demographics is *adult diapers*. **Uni-Charm (8113:Tokyo)** has a dominant share of the adult diaper market in Japan. No matter what happens to the Japanese economy, Uni-Charm should enjoy robust sales from this product line.

As a pure play on the domestic economy, Uni-Charm is an excellent vehicle for playing the Japanese renaissance. Uni-Charm's feminine and baby product lines ensure sustainable cash flows for the foreseeable future.

Uni-Charm has an estimated forward P/E of 35, which is cheap by Japanese standards. Given the company's 10% return on equity (ROE) and zero long-term debt, Uni-Charm is in a rock solid financial position. The stock has declined in sympathy with the Nikkei, falling from a high of US$72 to US$48.

As a contrarian play on Japan's aging population, I continue to recommend Uni-Charm (8113:Tokyo) as a Strong Buy.

Outlook for South African stocks

If you ever get the chance to visit South Africa, I strongly recommend you go. South Africa is a beautiful country. Cape Town is without question the most visually stunning city in the world. The crime and abject poverty are depressing – but you can find tough neighborhoods in Baltimore or New York, too.

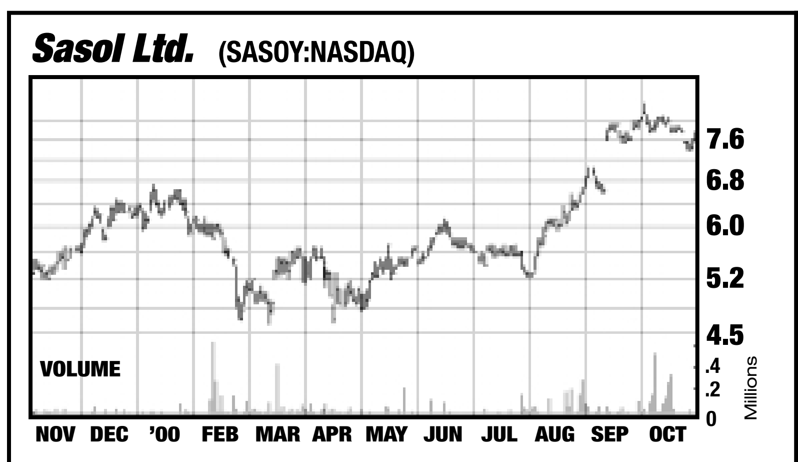
Although South Africa is a developing country, it has western business practices and a common-law tradition – making it an excellent environment for investing. However, you need to watch out for the impact of affirmative action policies on corporate governance…

The South African rand is plummeting. Gold bug brokers tried to convince me that the currency hit bottom when one U.S. dollar bought 5 rand. Now, one U.S. dollar buys 7.5 rand. There's no bottom in sight. Given the central bank's limited hard currency reserves, the economy's dependence on gold exports, and the social cost of lifting the masses out of poverty, it's hard to believe that the currency will bottom any time soon – even though the rand is fairly valued on a purchasing-parity or trade-weighted basis.

Over the next decade, the rand could fall below 20. The key to playing South Africa is finding enterprises that will benefit from continued rand devaluation. This would include exporters with hard currency revenue and rand costs. Sasol (SASOY:NASDAQ) is a clear beneficiary of rand depreciation.

Sasol (SASOY:NASDAQ)

Sasol's (SASOY:NASDAQ) fundamentals have never been stronger. Oil is above US$30 per barrel. The South African rand is at a record low. Chemical prices are in an upswing. Yet SASOY is still down 45% from its 1997 peak.



While SASOY's earnings directly benefit from rand depreciation (since its sales are priced in dollars and costs are priced in rand), SASOY's market value has been indirectly hurt by the concomitant degradation of the South African financial system – resulting in a break-even situation for U.S. dollar-based investors. SASOY is also depressed from lingering concerns over the deregulation of the South African fuel market.

I have toured SASOY's operations in Secunda a number of times – and remain a firm believer in the company. SASOY's management is extremely disciplined, growing earnings at annual rate of 30% (in rand terms), while maintaining a conservative 16% debt/equity ratio – despite an aggressive US$400 million per annum CAPEX budget.

SASOY is expanding its chemicals business, which should help reduce its vulnerability to a downturn in oil prices (it costs SASOY an equivalent of US$10 per barrel to convert low grade coal into synthetic fuel).

At current levels, SASOY is trading at just 1.8x sales, 6x earnings and 2x book value – a depressed valuation for a world-class oil/chemicals company. The positive impact of surging oil prices and the plummeting rand has not been built into the stock.

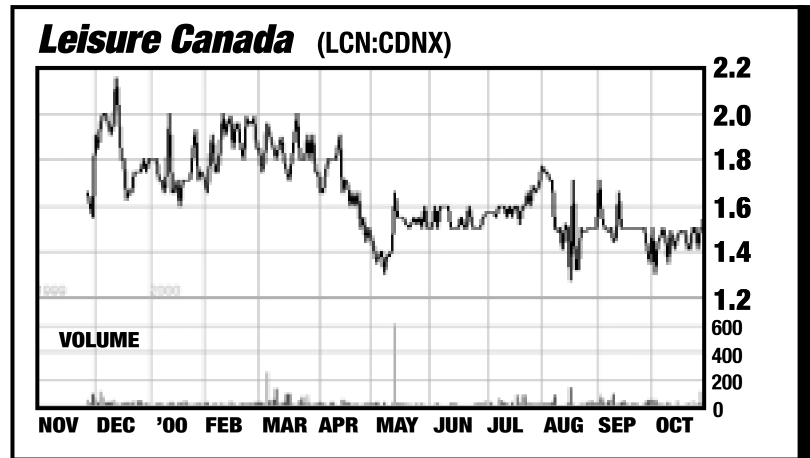
SASOY is a world leader in the conversion of natural gas into synthetic fuel. I believe this technology will soar in importance over the next ten years. No one knows more about synthetic fuels than SASOY. I believe this business division will be worth several times more than SASOY's current market cap within five to ten years. SASOY remains a Strong Buy.

Outlook for Cuba

Leisure Canada (LCN:CDNX)

Nothing prepares you for the beauty of Cuba. *Even a four day diet of rum and cigars can't fog the sun-drenched world in which Cuban music spills out of every bar and restaurant amid the architectural splendor of Old Havana…*

I just got back from a research trip to Cuba. If it weren't for the commies, I would defect! I flew down to Cuba to investigate the status of **Leisure Canada's (LCN:CDNX)** real estate projects. Based on the information I uncovered during this trip, I am even more excited regarding the short- and medium-term outlook for the stock.



During the trip, I met with the heads of LCN's Cuban partner, Grand Caribe (Grand Caribe is a premium hotel chain that is 100% owned by the Cuban government). While Grand Caribe is a de facto government agency, its managers were unequivocally growth- and profit-motivated. Grand Caribe's other assets, including Hotel Nacional (great hotel) and the Tropicana Show (best show ever), are cash cows – and an indication that LCN has an excellent partner.

LCN should announce debt financing in the near future. Heavy construction should begin in February. LCN remains a Speculative Buy at current levels.

Outlook for U.S. small caps

Williams Controls (WMCO:NASDAQ)

Williams Controls (WMCO:NASDAQ) has not been a rewarding stock to own over the last four years. However, CEO Tom Itin has successfully grown core operations, entered the automotive ETC market, divested money-losing divisions, and made strategic acquisitions. While small cap auto and truck part suppliers are not in favor, WMCO could benefit from a broad rotation from growth into value stocks.

WMCO is currently trading at 0.4x sales and 4x cash flow – a severely depressed valuation for a company that has a virtual monopoly on the truck ETC (electronic throttle control) market. In my opinion, WMCO could sell its Portland operation for US$70 to 90 million, based on multiples paid for automotive companies in recent merger deals. This would imply a value to WMCO shareholders, net of debt, of US$2.75 per share! This valuation model implies that WMCO's other divisions are worth negative US$30 million. Having toured WMCO's Aptek facilities, I find the market's assessment of WMCO to be incomprehensibly low.

I believe that WMCO's full breakup value, net of debt, is US$3.50 to $5.00. In the short term, WMCO will continue to be depressed by liquidity concerns. The company is highly leveraged, with a long-term debt-to-equity ratio of 115%. This leaves WMCO vulnerable to a severe deceleration in the U.S. economy. Given the depressed valuation of the stock, however, I believe the upside from current levels far exceeds the downside.

The closest comparable company to WMCO is **Transense Technologies (TRT:AIM),** a London-traded company with a US$450 million market cap. If WMCO were awarded the same enterprise value, it would trade at US$20!

It is my view that Itin will take concrete action to realize value for shareholders over the next six to twelve months. I continue to rate WMCO as a Strong Buy.

Computer Learning Centers (CLCX:NASDAQ)

While **Computer Learning Centers (CLCX:NASDAQ)** has utterly collapsed since I initiated coverage, I believe there is tremendous value in the stock at current levels. CLCX is trading at just 0.1x sales and 0.3x book value. On an enterprise value/student basis, CLCX is valued at just US$2,100. While CLCX has liquidity problems and some unresolved regulatory issues, the bad news

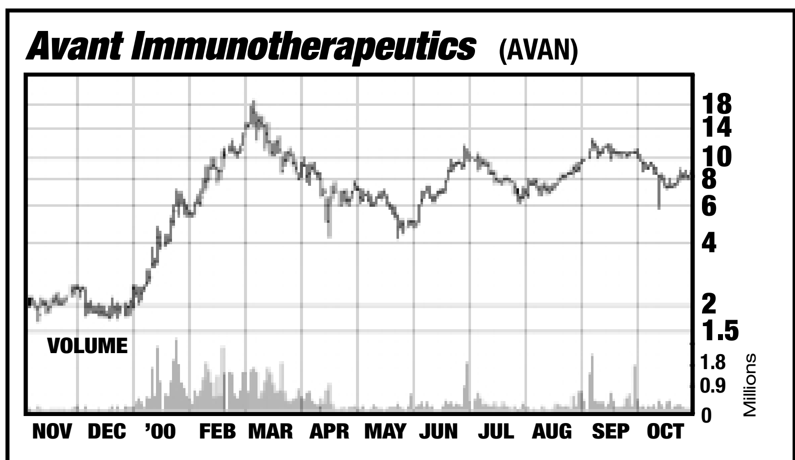
has been built into the price. Either CLCX will go to zero (with current assets below current liabilities, there is a short-term solvency problem), or it will appreciate massively from the sub-US$1 level.

With its strong brand and nationwide campus infrastructure, CLCX is positioned to benefit from favorable demographic trends. There's still a huge need for qualified IT personnel. Since the demand for adult education is inversely correlated to employment (when the job market is tight, you don't need additional training to get a job), CLCX provides a natural hedge against a modest economic slowdown.

It doesn't make sense to sell at current levels.

Outlook for U.S. biotech

No one knows more about biotech stocks than my colleague Brian Hicks. And when Brian, a True Believer, a man who is always and forever an ideological bull on biotech, tells me that there are too many weak hands playing the sector, that he is nervous about the level of retail participation in biotech, I know it's time to look for selling opportunities.



The Genome Bubble burst along with Internet stocks in the late spring. But the Amex Biotech index has rebounded back to bubble highs. While the advent of the genomics era justifies a certain degree of exuberance towards biotech, the current level of excitement seems unrealistic.

I recommend adopting a trading mentality towards my two small cap biotech picks, **Xoma (XOMA:NASDAQ)** and **Avant Immunotherapeutics (AVAN).** While I currently rate both XOMA and AVAN as Holds, I would recommend looking to sell into any news-driven rally.

Agricultural biotech offers far more upside than biotech, with far less risk. There are only 8 to 10 pure agbio stories listed on U.S. stock exchanges. There are thousands of biotech companies. If agbio falls back into favor, there will be a massive re-rating of these stocks. **The controversy regarding so-called genetically modified foods has kept retail and momentum speculators out of agbio stocks, limiting the downside in the**

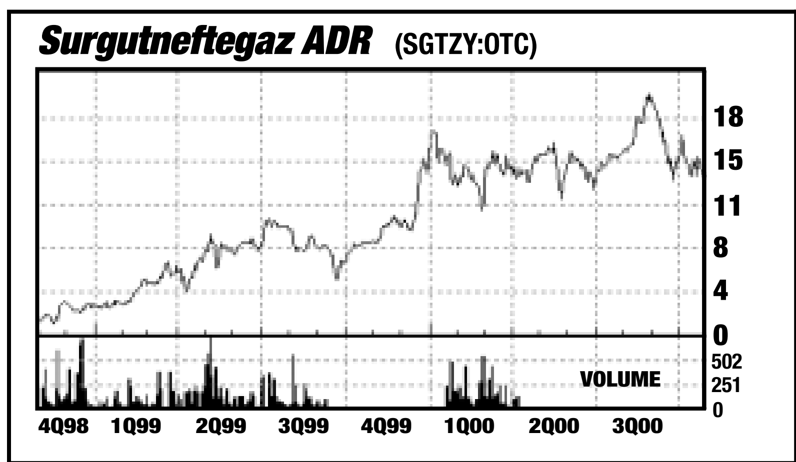
event that biotech stocks crash.

Outlook for Russian and Former Soviet Union stocks

Surgutneftegaz ADR (SGTZY:OTC)

Ever since I met with **Surgutneftegaz's (SGTZY:OTC)** management in Surgut, Siberia, I have been a rabid supporter of the stock. SGTZY is without question the highest-quality company in Russia. With US$3 billion in cash and liquid assets on its balance sheet and no debt, SGTZY is in an incredibly strong financial position.

In FY2000, SGTZY will generate an estimated US$6 billion in revenues, US$3.4 billion in EBITDA and US$2.5 billion in net profits. Show me an Internet company that generates 56% EBITDA margins (not to mention US$2.7 billion in after-tax cash flow)! Since the 1998 Russian crisis, SGTZY has increased sales by 130% and earnings by 520% (on 2000E). Despite this outstanding growth in profitability, SGTZY has a depressed P/E ratio of 6.



SGTZY has been able to generate such outstanding results by maintaining ruthless control over all expenditures. In 1998, SGTZY invested more in CAPEX than the rest of the Russian oil industry combined. And SGTZY is one of the few companies in any industry in Russia that allows cash to accrue on the balance sheet (managers at more than a few other companies have found creative ways of transferring cash to their own personal offshore bank accounts).

Recently, SGTZY management consolidated its holding company into its production subsidiary (SGTZY). This action cleaned up SGTZY's capital structure and created tremendous value for all minority shareholders.

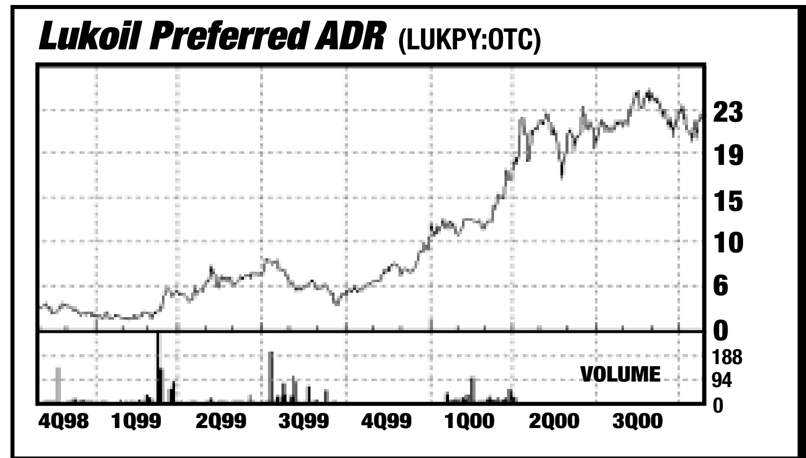
Russian brokers criticize SGTZY for being too stingy (of course, these are the same brokers who heaped praise on GLDN for paying through the nose for worthless Internet portals). According to the market consensus, SGTZY should either make a large acquisition with its cash balance or return the cash to shareholders in the form of dividends. While I agree that SGTZY should be more generous with dividends if it cannot find large enough investments, it is not in the interest of shareholders to go on a spending spree for oil reserves when crude oil is US$33 per barrel.

With over 8 billion barrels in reserves and massive refining capacity, SGTZY is one of the largest oil companies in the world. Given its super-low cost structure and highly disciplined management, SGTZY will continue to prosper – even in an environment of lower oil prices.

SGTZY is a Strong Buy.

Lukoil Preferred ADR (LUKPY:OTC)

Lukoil Preferred ADR (LUKPY:OTC) has rallied 270% since I initiated coverage in the November issue of *Taipan* – before dividends. The 1999 cash dividend of US$1.20 per ADR, which was declared on April 17, 2000 to ADR holders of record, equated to an 18% dividend yield vs. our recommended entry price.



The formula for comparing Lukoil Preferred ADR (LUKPY:OTC) to **Lukoil common ADR (LUKOY:OTC)** is 2 LUKPY = 1 LUKOY. You need to multiply LUKPY's price by 2 to compare it to LUKOY. LUKPY *2 = US$45. LUKOY is currently trading around US$53. This means <u>the current discount between Lukoil preferred and Lukoil common is 15%.</u>

When I recommended LUKPY, the discount between the preferred and common shares was a ridiculous 60%. As I predicted, the discount contracted as irrational Russophobia dissipated. While the discount has experienced a massive one-time contraction, there is still some upside leverage to the preferred.

The only big downside to owning the preferred stock is the lack of voting rights. But in Russia voting rights mean almost nothing. Furthermore, the preferred will be converted into de facto common stock if Lukoil neglects to pay 10% of the holding company profits to preferred shareholders.

Lukoil is one of the largest oil companies in the world. Estimates for 2000 sales exceed US$18 billion. Despite the high oil price, Lukoil is valued at just 4x 2000E earnings. There are rumors that Lukoil will convert the preferred shares into common shares on a one-for-one basis – an optimal outcome for LUKPY holders (since, in this scenario, every two shares of LUKPY would be converted into one share of LUKOY, resulting in an immediate gain of 18%).

While there is an outside chance that Lukoil management will attempt to force conversion on unfavorable terms, the underlying common shares are cheap enough to compensate for this risk. If Lukoil doesn't convert the preferred shares into common, it will have to pay out a huge dividend (10%+) to shareholders based on estimated holding company profits.

I rate LUKPY as a Hold.

Mosenergo ADR (AOMOY:OTC)

Moscow is the most prosperous city in Russia. As the supplier of electricity to Moscow, **Mosenergo (AOMOY:OTC)** is in a strong fundamental position. On an asset basis, AOMOY is dirt cheap. Unfortunately, AOMOY has been a miserable performer over the last two years. Utilities are highly regulated in Russia, which makes it difficult to pass on price hikes to consumers.

While the ADR is still languishing, AOMOY is an intriguing turnaround story.

Shareholders elected new management in May 2000. **EDF**, France's largest utility, has announced that it intends to invest US$160 million in a joint venture with AOMOY to produce electricity for the Moscow market. This is clear vindication both of AOMOY's growth potential and the strengths of its new management.

AOMOY remains a Hold.

TyumenAviaTrans ADR (TYAVY:OTC)

The CEO of **TyumenAviaTrans (TYAVY:OTC)** recently stopped by my office. I remain impressed with the company's turnaround story. Since I initially recommended the stock, TYAVY has eliminated barter payments to corporate charter customers, eliminated its federal tax arrears, consolidated its corporate structure to improve regional tax efficiency, and laid off a huge chunk of its workforce – fulfilling all the promises made to me by management in May 1998.

As a regional Russian aviation company, TYAVY is unlikely to attract a flow of funds from Western portfolio managers in the near term. But the unique nature of TYAVY's assets (including a massive fleet of the world's largest helicopters) should draw retail investors into the ADR as the positive macroenvironment in Russia becomes clearer to mainstream investors.

Recently, TYAVY announced that it won a US$8 million contract with the UN. TYAVY will provide 24-hour helicopter service in the Republic of Eritrea with 2 helicopters and 32 personnel. The company estimates that international business will account for 31% of total sales in FY2000.

TYAVY has recovered from a bid of US$0.25 to US$3 over the last twelve months.

Ventspils Nafta (VNFT:Riga)

The Latvian economy is booming. Oil is flowing out of Russia and into Europe – much of it passing though **Ventspils Nafta's (VNFT:Riga)** giant transshipment terminal. With a P/E ratio of 4, you would expect Ventspils' stock price to soar on the back of positive fundamentals.

Unfortunately, Ventspils' management does not appear to be interested in building shareholder value. In fact, management appears to be outright hostile towards minority shareholders. Ventspils' revenues account for 20% of Latvia's GDP. If the Latvian government wants to join the EU, than it will have to clean up Ventspils Nafta.

If Ventspils ever gets cleaned up, the stock could appreciate 10x. Consequently, I regard VNFT as a Hold.

James Passin manages the Firebird Global Small Caps Fund for Firebird Management and is a Contributing Editor to *Taipan*. Passin's fund is currently a shareholder in ECTX, ELBTF, ORCT, ARMX, LCN, WMCO, and CLCX. Several funds managed by Firebird are currently shareholders in UPRO, SGTZY, LUKPY, AOMOY, and VNFT. Passin's views are strictly his own and not necessarily those of *Taipan* or Firebird Management.

What will the future bring?

by Brit Ryle

Wall Street old-timers will tell you the market looks three to five years ahead. But I've also heard old-timers say you can see a ghost through a dog's ear, and that caterpillars can predict the weather.

Truth be told, the market can be incredibly shortsighted. Like during the recent election fiasco. Markets are not always efficient. Great stocks get ignored while fantasy stocks are bid into the stratosphere.

Take the dotcoms, for example. That sector's thrashing was long overdue. If buying pet food on the Internet is a billion dollar idea, then my dogs should be sharing Florida's electoral votes. And whoever thought up the online grocery store that brings food to your door deserves to live in his delivery van down by the river.

20/20 vision?

But that doesn't mean tech is dead. Not by a long shot. Fiber optics and wireless will be booming for at least the next 5 years. And recent weakness in both sectors has created buying opportunities for those who have the vision that the market sometimes lacks.

We've seen some high profile earnings warnings from market leaders like Intel, IBM, Apple, Nortel, Lucent, WorldCom, Dell, Oracle, Hewlett-Packard, etc. And the supposedly forward-looking market interpreted this to mean that tech has peaked.

NASDAQ 5000 again?

If you want to see 5000 this year, go buy an Audi. 'Cause you're not gonna see it on the NASDAQ. Remember, the last time the NASDAQ was at 5000, Cisco was a half-a-trillion dollar company. Hard to believe anybody will get that kind of valuation again in the near future.

I believe the NASDAQ will remain relatively flat for the next year. But if you think a flat market is synonymous with a calm market, think again.

2001's gonna make the Perfect Storm look like Lake Placid. Volatility will be the name of the game. Here's why:

There's a revolution coming in technology. I call it the "Rise of Number Two." Many of the elite will be usurped this year. Companies like Advanced Micro Devices, Gateway, Nortel, Yahoo!, and Sprint are the Bolsheviks. And the growth companies of the nineties, the Czars, companies like Intel, Dell, Lucent and Cisco, America Online and Verizon, will see their reigns come to an end. Without some huge moves by the technology leaders, there's no way the NASDAQ can regain its previous highs.

As it stands now, when Intel sends a warning, all the chip makers get hit. Until investors realize that one company's problem is another's opportunity, the

babes will continue to be thrown out with the bathwater. And we'll be looking to scoop them up on the cheap.

In fact, the revolution's already begun. Plus, S&P small cap companies are trading at an average price-to-earnings-growth (PEG) of 1.1. The big-caps are trading with a PEG of 1.7. And while small caps carry more risk, they also have higher rewards. And better chances of putting up really strong revenue and earnings numbers.

The madding crowd

A second source of volatility stems from new SEC rules on how companies disseminate information. The days of closed-door meetings between analysts and CEOs are over. You won't have to watch one of your stocks tank, and then find out that the company has changed its earnings outlook. Individual investors will be on an equal footing with high-dollar analysts.

As we all know, crowds tend to act, um, shall we say, *irrationally* at times. Just ask anyone who's faced a mob of angry villagers with pitchforks – Mussolini, Israeli soldiers, or Louis XVI, to name a few.

Mom always said it's dangerous to swim on a full stomach. Just wait till you see investors trading before the news is properly digested. Patience and judgement will be your biggest assets in 2001.

2000: the year that was

I lie awake nights, tormented by the year 2000. What started out so positive ended up so painful. I hold up my very first stock recommendation for *Taipan* as a sort of archetype for how the rest of my year went. At the beginning of December 1999, I recommended Geoworks at US$7.

Like so many other small caps, Geoworks shot up as Y2K liquidity hit the market. Within 3 months, Geoworks was trading at over US$50 a share. That should've been a warning, but I kept at it. I even went so far as to issue a sell on the stock, then promptly retracted it. Ugh.

Well, close to a year has passed, and Geoworks is a much more stable company now than it was then. Deals with Virgin Mobile, United Airlines, Abbey National Bank, Toshiba, Ericsson, Symbol Technologies, and Bell South point to a bright future for this pioneering wireless company.

And yet all the analysts and fund managers can see is a small company fighting an uphill battle to wring revenues out of larger companies that it can't make on its own. What no one seems to see is a cutting-edge company moving boldly into the global wireless market. That's because no one wants to look past the big, black cloud that litigation kicked up.

Intellectual property

The whole mess started when Geoworks informed the WAP (Wireless Application Protocol) community that it held essential patents for the WAP standard. Ever since that announcement, I've argued that Geoworks wasn't attempting to simply collect revenues from companies involved in WAP development.

Rather, I believed that Geoworks wanted to leverage its patents in order to gain

access to others' technology and create business opportunities. My conversations with the company back up this argument.

Take the recent agreement with Ericsson. The two companies agreed to cross-license technology. That's it. No fat royalty checks for Geoworks. If Geoworks was wanting to capitalize its IPR, there aren't many fish bigger than Ericsson.

But a cross-licensing of technology is all Geoworks wanted. And, incidentally, the fact that Ericsson chose to deal at all should be seen as very favorable.

The same goes for Toshiba. I haven't seen the licensing agreement with Toshiba, but I'll bet you I know what it says. In return for Toshiba buying Geoworks's Premion+ server, Geoworks will grant licensing rights to Toshiba. Again, I think Geoworks could've tried to gouge Toshiba, but selling a few Premion+ servers is a lot more important.

Just the facts, ma'am

Because of the litigation, Geoworks is closely associated with WAP, the Wireless Application Protocol. WAP has been criticized relentlessly for being an ineffective way of rewriting web pages for wireless devices. Many see Japan's NTT DoCoMo's wireless Internet service, i-mode, as the best wireless Internet service available, and a major threat to WAP.

The fact is, Toshiba resells Geoworks Premion+ server software to power some of the content for i-mode. Toshiba just began its wireless business, a US$1.4 billion dollar initiative. And DoCoMo is expanding into European and American markets. Geoworks will likely be part of both companies' futures.

Earnings

Geoworks has had seven consecutive quarters with year-over-year revenues growth. Revenues for the second quarter of fiscal 2001 were up 18% over last year, to US$3.5 million. And revenues for the first half of 2001 outpaced those of the previous year by 64%. US$800,000 of the quarterly increase came from newly acquired AirBoss.

CEO Dave Grannan predicted that the third quarter would show 25-30% year-on-year growth, to approximately US$5 million. He also forecasted that the fourth quarter would show another 25-30% sequential growth, to around US$6.5 million. I like to hear a CEO talk with such confidence. Geoworks also promises to be profitable in fiscal 2002, which begins April 1.

Revenue growth over the next two quarters will come from one old customer and a couple of new ones. Geoworks currently provides wireless solutions to Symbol Technologies and Bell South. In addition, cash from Toshiba is only now starting to come in, and will be increasing.

Don't get mad, get a lawyer

Geoworks's lawsuit with Phone.com is a menacing sword of Damocles. The earliest possible date for legal resolution is the summer of 2001. But common sense will prevail. At least I hope so. Phone.com has a lot to lose, with potentially 10% of its WAP related revenues at stake. But there is a way out.

Dave Grannan has said repeatedly that Geoworks prefers not to go to court, and is open to negotiations with Phone.com at any time. Are you listening, Phone.com?

THEME I - Looking out for number two

The ascension of the smaller players rests on the assumption that certain markets are big enough, and growing fast enough, to yield huge market opportunity. And the companies that come along in the second wave are often particularly well positioned.

Emerging technologies inevitably have winners and losers. Beta vs. VHS is probably the most frequently cited example, but there are many others. Early chip manufacturers used germanium and overlooked silicon and gallium arsenide. Now they're history.

Some of my favorite second-tier companies are in the optical space. Demand for fiber is insatiable. If you're just getting around to building your own network, you'll have to wait a year and a half just to get the fiber.

Telecommunications research firm RHK estimates that optical equipment sales will jump 42% to US$29 billion in 2001. It's worth noting that telecoms are notorious for underestimating spending, and for obvious reasons. Wall Street doesn't like to see companies go on spending sprees, no matter how necessary they may be.

The waiting is the hardest part

At the fiber optics convention in Baltimore last March, **Precision Optics (POCI:NASDAQ)** announced the development of 100ghz filters for DWDM (dense wave division multiplexing) devices. Now that promise is finally being realized.

In August, POCI announced a new lease on a 37,000 square foot manufacturing facility they dubbed the "Optical Thin Films Technology Center."

The Optical Thin Films Technology Center will be used for – you guessed it – 100ghz DWDM filters. I'm sure POCI will also use the space for 200ghz filters. The new facility will be up and running by the time you read this.

Dense wave division multiplexing allows a beam of light to be split by spectrum and sent down a piece of fiber. Each spectrum, called a channel, can carry separate data, thus boosting capacity exponentially and allowing carriers to offer bandwidth on demand.

A 200ghz filter creates channels that are 200ghz wide. A 100ghz filter effectively doubles the number of channels that can travel simultaneously on one piece of fiber.

The prognosis

It's been a long and painful wait. The NASDAQ "adjustment" crushed this position by over 60%. I totally miscalculated the development cycle for the new filters. But relief is in sight.

Precision Optics expects to do at least US$8 million in filter sales this year. Odds are, that's a low-ball estimate. In the meantime, the stock looks to have found a solid base around US$5. And if POCI can just meet its revenue projections, the stock should have no trouble getting over US$15.

The little DWDM maker that could

When it comes to small cap optical companies, **APA Optics (APAT:NASDAQ)** is number one on my list. APA makes a DWDM filter based on fiber Bragg gratings. DWDM filters split light into different light waves, or colors. Fiber optic cable can then carry many different light waves, increasing data capacity exponentially.

Right now, huge companies are scrambling to develop fiber Bragg grating technology. Nortel, Lucent, Alcatel and Ciena are each in some phase of FBG development, hoping to get a piece of what's expected to be a US$1.3 billion market over the next couple of years.

APA Optics makes a cutting edge fiber Bragg grating DWDM filter that can split a beam of light into between 8 and 56 distinct colors, or channels. Pretty cool. But cool technology is irrelevant if we can't make money off it. And so far, APA Optics is my biggest failure.

I recommended APA Optics at the absolute height of last spring's tech madness. I'm not going to make any excuses for my failure (though I have some pretty good ones). Instead, I'll just point out that APA Optics has made encouraging headway over the last few months, and I believe we've seen the lows for this stock.

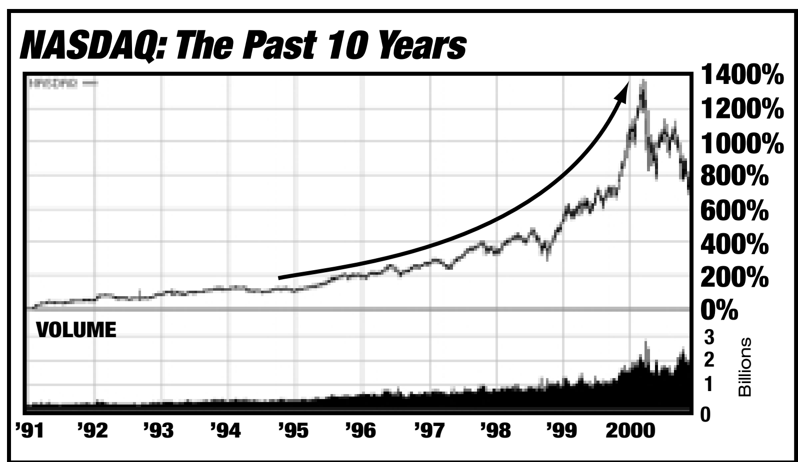
I read the news today – oh boy!

APAT shipped US$500,000 in DWDM components, mostly to French networking giant **Alcatel (ALA:NYSE)**. Alcatel is testing 25 8- and 16-channel devices for single mode (long haul) fiber.

No word on what Alcatel is paying, but this is the second order from them. There's still a long way to go, but APA Optics products have some of the highest channel counts available. I believe it's just a matter of time before the company starts to receive bulk orders. And it won't take much to get some positive momentum behind this stock. Fiber is still one of the hottest areas in tech.

THEME II - Wireless

Take a look at a ten-year chart of the NASDAQ. Notice anything unusual about January of 1995? Want to take a stab at what happened?



That's right. The Internet happened.

Information technology has hit its stride. Computers are ubiquitous at the corporate level. And even farmers are a lot more technically savvy than many people realize. The big investment in getting wired has been made. The next boom will be in getting unwired.

The name of the game is productivity. Computers have leveled the field. The next trend in productivity will be wireless. I think 2001 will see the beginning of a huge push to implement wireless technology in businesses.

Datalink.net is in play

There are many ways to play wireless. You can invest in network technology, mobile commerce, location technology, data and voice carriers, content and solution providers. I've highlighted companies in all of these categories. We've already talked about

Geoworks. Here are my other favorite picks in this space.

Datalink.net (XLNK:NASDAQ) is a WASP. That's not a social category, but it is a great buzz word. Wireless Application Service Providers will be one of the biggest stories of 2001. That's because they provide out-of-the-box wireless solutions for corporations that want to implement the latest productivity boosting technology. And if you think this isn't a huge market, think again.

Datalink provides wireless solutions to Chase Manhattan Bank. It's interesting to note that Chase chose Datalink over an Aether Systems subsidiary. Datalink is also developing solutions for the healthcare industry, where there is tremendous opportunity.

The latest development is a deal with Alcatel to implement a remote monitoring system for Alcatel's networks. The Hiplink software, which became a part of Datalink through the Cross Communications acquisition, allows Alcatel engineers to be immediately notified if there's a problem with any part of the network.

Even better, Alcatel will act as reseller for the system, giving Datalink a valuable ally in Europe. Fidelity has also implemented the Hiplink software to monitor its network. And, finally, Samsung and Hughes Corp. have signed on with Datalink, too. Revenues are on the way.

B2B focus

Datalink shifted its focus to the business market about a year ago. And while the above contracts aren't particularly glamorous, they represent a huge revenue source – much more than the company could hope to get for providing stock quotes and sports scores to consumers.

And it would seem that investors are seeing the potential here. The stock has moved up strongly on recent news. We're not back to my target entry price yet, but it won't be long. I still believe that Datalink.net is a strong buy under US$12, and I have a three-year price target of US$270.

CellPoint: location, location, location

CellPoint offers network-based location technology. The most obvious catalyst for this kind of technology is the government's new wireless 911 laws, which require all wireless carriers to be able to pinpoint the exact location of mobile users in their networks. So when a user calls 911, the operators and police or emergency personnel can find them.

Obvious, maybe, but the law is not necessarily the biggest driver behind this technology. Carriers will also offer consumer-oriented services. And there are corporate applications that fall under the category of remote monitoring, or telematics.

Location-based services are expected to be a US$25 billion dollar market by 2005, with carriers shelling out US$9 billion on 911 services alone. That's a lot of cash to spread around.

CellPoint's technology can be inexpensively implemented for each of these applications. In the consumer space, Cellpoint and Yahoo! Europe are marketing Yahoo! Find-A-Friend. With this service users can accurately locate friends, family or business associates. The CellPoint System has been operational on Sweden's Tele2 network for over a year.

And best of all, the CellPoint System performs better than GPS in urban environments. GPS must have direct line of sight to work properly. If you're in a tunnel or a parking garage, forget it. The CellPoint System can locate your phone even if it's in a briefcase inside of an office building.

Shake your moneymaker

The big moneymaker here is remote monitoring, or telematics. Telematics includes fleet management, remote monitoring of meters, networks and systems. Cellpoint has signed several contracts for telematics through its subsidiary, Unwire.

Another company, PM-LUFT AB, manufactures, installs and maintains industrial ventilation systems for shopping malls, office complexes, etc. Using the CellPoint System, PM-LUFT AB can be alerted to ventilation system failures as soon as they occur, and can also monitor and adjust temperature from a remote location. PM-LUFT AB has already ordered 500 units, with several thousand more expected to be installed.

In May, Unwire and Ericsson announced a joint venture to market telematics solutions to Southeast Asia. Ericsson and Unwire are developing applications based on the CellPoint System. As a worldwide GSM network provider with a foot in the door in Asia, this deal is nothing less than gigantic for CellPoint. Ericsson has already committed to buying several hundred programmable GSM terminals from Unwire, and one of Ericsson's solutions was demonstrated in Malaysia in April of last year.

Fleet afoot

CellPoint has a vehicle tracking application (automatic vehicle location, or AVL) for companies that need to follow a fleet of vehicles. The Strategis Group estimates that by 2003, 3.4 million vehicles will have AVL technology on board. If CellPoint can take even 10% of that market, hardware sales could reach US$60,000,000 over the next few years.

Since CellPoint is the only company in the world that has GSM mobile positioning, we may well be watching the gorilla as it learns to walk. I have a 2-year US$110 price target on CellPoint.

Illinois Superconductor

3G is coming. And it's going to start in Japan. NTT DoCoMo will build the first high-data-rate wireless network in 2001. It will use a wideband version of CDMA. And it will feature superconducting filters from Illinois Superconductor.

Superconductors made a big splash in the scientific community 20 years ago. Problem was, no one could figure out an economically feasible commercial application for them. Until about 5 years ago, that is, when someone hit on the idea of using them to filter out signal interference in wireless networks.

Squeezing the spectrum dry

With rising subscriber numbers and the high cost of new spectrum, efficient use of existing spectrum is a priority for carriers. And Illinois Superconductor RF filters increase the capacity of CDMA networks by 30%. That's what the gang over at NTT DoCoMo says. I have no reason to doubt them – they've been testing the filters for over a year now. And it seems they like what they see, as ISCO's filters have been, to (loosely) quote

CEO Dr. George Calhoun, "…effectively written into [DoCoMo's] 3G specs."

ISCO's filters are cheaper and easier to manufacture in bulk. By virtue of the recent acquisitions of Spectral Solutions, ISCO has the only viable tower mount feature, and is the only company to offer both thick and thin film filters. ISCO will also be the first to offer a hybrid of the two filter types.

In addition, ISCO has the only filters that can perform like conventional filters if a refrigeration unit fails. All temperature performance (ATP) eliminates the need for a backup filter system and gives ISCO the smallest total system in the industry.

But the bottom line is this: ISCO's thick film filters perform better than thin film filters, as proven by DoCoMo research.

I've heard estimates that as many as 50,000 to 60,000 base stations will be deployed in Japan. And, even better, superconductor filters are being considered for network-wide deployment.

The numbers game

Okay, 50-60,000 base stations in Japan. It's not a confirmed number, but a pretty reliable source mentioned it as a ballpark figure. I asked CEO George Calhoun what kind of gross margins he hoped for, assuming ISCO gets the bid. I mentioned 30 to 35% as a prompt and he scoffed at me. He said point-blank that something this important that can't be found anywhere else is worth a lot more than a 30% margin. Based on his reaction, I'm looking for gross margins to be in the 50-60% neighborhood. I like that neighborhood a lot better anyway.

If Illinois Superconductor gets the DoCoMo contract, I conservatively estimate revenues at a minimum of US$300 million. Though no official release has been made, I believe SK Telecom is involved in designing DoCoMo's network. And I believe orders for South Korea will follow sharply on the heels of DoCoMo, which should add another US$100 million. Near as I can tell, there won't be any slow buildup to actual orders. One day there'll be none, the next day there'll be a bunch.

Theme III – Military spending and CMTL

Another trend I see stemming from the recent Presidential election concerns the military. If there's one thing you can count on, it's Congressional spending. And one issue on which both the President and Congress will agree is the military. There's no company better positioned to take advantage of defense spending on tech than **Comtech Telecom (CMTL:NASDAQ)**.

Early in 1999, Comtech Mobile Datacom, a wholly owned subsidiary of Comtech Telecom, led a team of two other companies to win a bid for the U.S. Army's Movement Tracking System. The Army will use this system to track its assets and allow real-time communication between fixed and mobile command centers. And the contract is juicy – up to US$418 million over the next eight years.

Comtech has already taken its first order of US$3.1 million on this contract, and I expect to see a minimum of US$75 million more over the next two years. And no part of this contract is priced into the stock now. In fact, Comtech is still the most undervalued telecom equipment stock I know of. Here's what I mean:

Earnings explosion

Comtech's fiscal year revenues leapt 75% to US$66.4 million. Excluding some one-time charges related to the EFData acquisition, net income was up 140% to US$4.2 million.

Of course, those non-recurring charges were US$10.4 million which put the company in the hole by nearly US$4 mill. But the nice thing about non-recurring charges is, they only happen once.

As of July 31, backlog had risen 31% to US$50 million. The nice thing about backlogs is they give you a hint of what earnings will look like in the future. All in all, Comtech did very well. But don't forget – this jump in revenues is only partially related to the EFData acquisition, which was a part of Comtech for just three weeks.

Fourth quarter revenues jumped from just under US$10 million last year to over US$25 million. Assuming this keeps up, we're looking at revenues of over US$100 million on an annualized basis. Comtech is currently carrying a US$120 million dollar market cap, which means it's trading for just over 1X 2001 sales.

That, to me, represents an inefficient market. Comtech's valuation simply has to rise. US$30 a share in 2001 is not out of the question.

Look for a Renewed Bull Market in 2001

by Brian Hicks

If you're a disciple of Malkiel's "A Random Walk Down Wall Street" you're probably not feeling too good right now. In that book, Malkiel suggests that a *blindfolded monkey* would have as much luck selecting a portfolio as a pro.

I was born in 1968. According to Chinese astrology, that was the "Year of the Monkey." Therefore, I must be considered a walking freak show. But maybe my wacky wig and Kentucky teeth have taken a back seat to the first market-flooring clown, Mr. Malkiel.

Malkiel's core premise is: stock prices cannot be predicted in the short term. As a result, individual investors are better off buying and holding on to index funds than meddling with stock trades or actively managing mutual funds.

Hmmmm. Luckily, you follow *Taipan*. But if you indexed your portfolio to one or all of the major indices like Malkiel recommends, you're probably not too crazy about the resulting performance.

As I write, the Dow is down 6% for the year, the NASDAQ is down 30%.

Taipan's microcap holdings, however, are up 26% for the year. Much of this success has been driven by the performance of biotechs.

But what you really want to know is how to profit from the current market. That's exactly what the *Taipan* forecast issue is for.

If the recent bear market has you questioning your involvement in the investing arena, just take a look at the chart of the Dow Utilities Index on the next page.

I'll quote from one of my favorite books on the subject, "Stock Market Logic," by Norman Fosback.

> *"Utility stocks are so sensitive to interest rates that bond and money market developments are often reflected in the Dow Utility Average long before they exert any influence on the stock market generally. For this reason, utility stocks are frequently a useful leading indicator of general market trends.*
>
> *"There are several reasons for the interdependence between utility stock prices and interest rates.*
>
> *"First, owing to their customarily high dividend yield, utility stocks are often treated as a substitute for bonds, whose price fluctuations are almost totally dependent on interest rate changes.*
>
> *"Second, most utilities have large amounts of debt in their capital structure, on which they must pay interest. The amounts of such payments are critical to their profitability.*

Known as the "original biotech bug," Brian Hicks, editor of the Cutting Edge and the Rogue Trader, cut his stock-picking teeth as a junior research analyst with global investment advisory service Taipan. Brian made his bones by researching and recommending stocks big Wall Street hot shots laughed at - small and microcap stocks. Brian's first two recommendations – Closure Medical and Microvision – went to post impressive gains of 434% and 333% respectively. After spending years perfecting his microcap analysis and trading techniques, Brian launched his own stock advisory service, The Cutting Edge in 1996. His recommendations have been stellar, with gains in excess of 848% in Alexion Pharmaceuticals, 526% in Optimal Robotics, 576% in Genome Therapeutics, 434% in MedImmune, and 1252% in AVI Biopharma warrants.

Brian received a Masters degree in Policy Sciences from the University of Maryland where he learned the power of the FDA policy-making.

"Third, the utilities are dependent upon easy availability of funds in the capital markets to finance the expansion on which their long-term profitability depends.

"Given the dependence of all common stock valuation on interest rates, it is not surprising that utility stocks frequently change trend ahead of the general market.

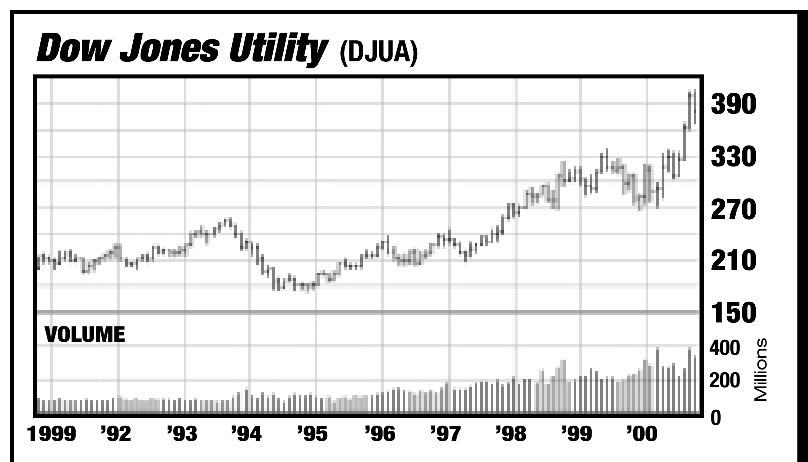
"Although over 150 utility stocks are listed on the NYSE, the 15-stock Dow Jones Utility Average serves as a useful proxy for market forecasting purposes.

"One useful refinement is to compare the current Dow Utility index with the level of 15 weeks earlier. If the present reading is higher, utility stocks may be classified as in an uptrend and the stock market should follow upward as well.

"If the current Utility index is lower, a downtrend is established and the broad market should the follow the utilities lower. Since the utility average has a greater chance of embarking upon a sustained trend over a 15-week period than in a single week, buy and sell signals are less frequent and whipsawing is reduced (although it is not completely eliminated).

"The utility stock average provides a unique, money sensitive measure of investor sentiment. It is a valuable leading indicator of the market's future trend – a real bellwether."

In other words, if the utility index is rising, the broader market will probably rally as well. Now take another look at the Dow Utility chart...



The index has been in a very robust rally since the beginning of 1997 (remember those days – before anybody heard of B2B?). The Utility index went from 210 in early 1997 to about 340 in mid-1999, a gain of 62%. That ain't bad for safe haven stocks with dividends.

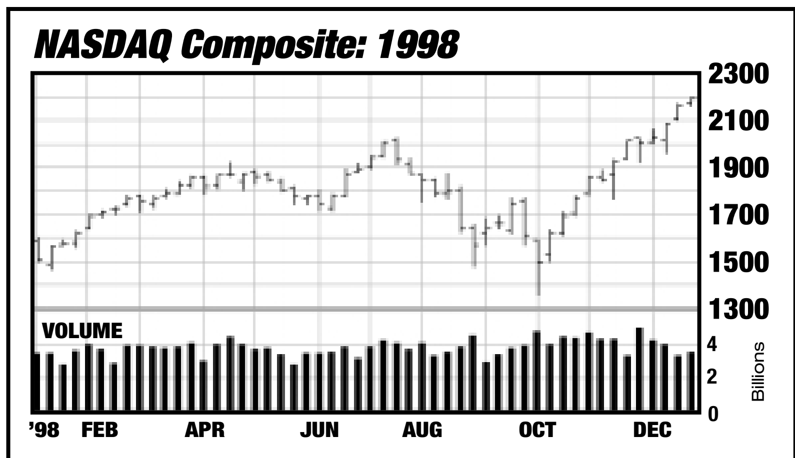
Subsequently, the Dow followed the Utilities, posting a gain of 69% in the same period. The NASDAQ went on to post a massive gain of 150% during that time. But the Utility index sold off in 1999 in anticipation of the three rate hikes by the Fed. It was clockwork. However, take a look at the progress on the chart ever since it made a double bottom formation. The index has repeatedly set record highs this year.

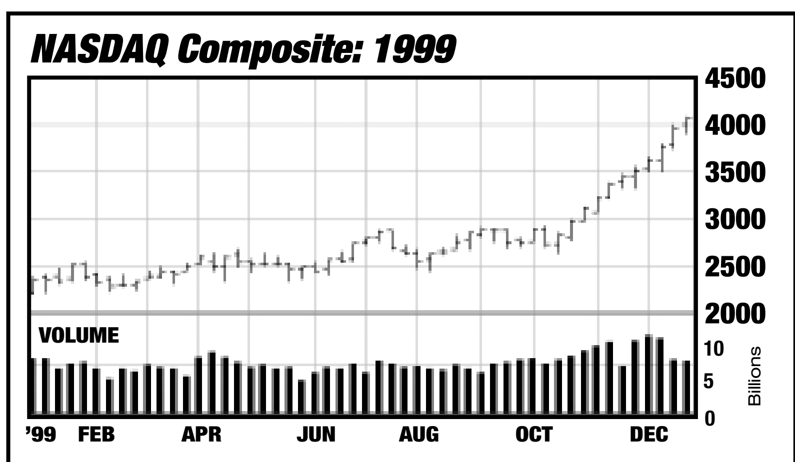
In other words, utilities are indicating low inflation and lower interest rates for the future. This is always bullish for stocks. That's all you need to know to be fully invested in the market.

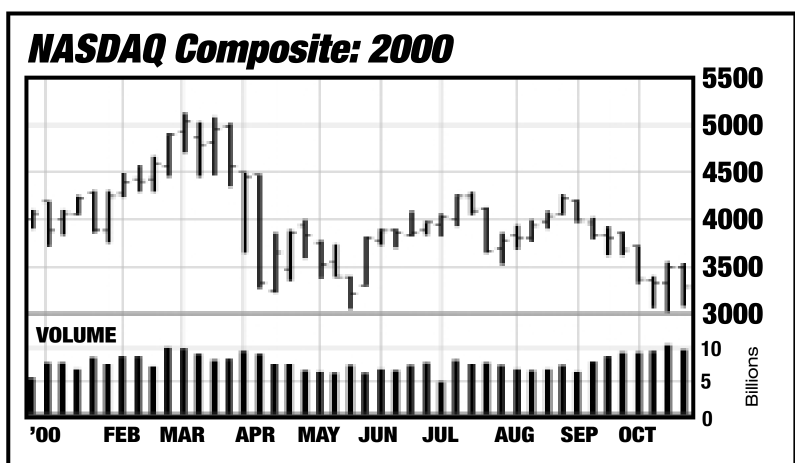
Yeah, but what about the big techs?

That brings me to my next point: the current bear market in the NASDAQ.

As I write this, the NASDAQ is down 30% for the year, and a bowel-shaking 45% from the record highs it reached in March. Take a look:







This should have been expected. I mean, you don't gain 86% one year without paying for that excess the next.

Time to pay the bill

High-tech investors have been paying the bill for the 86% gain in the NASDAQ back in 1999.

Just look at some of the devastation experienced by the soaring stocks of the 1990s high-tech bull market.

Microsoft has lost more than US$286 billion in market cap this year. It is no longer the biggest company in the world.

Intel has lost US$219 billion.

Qualcomm's day in the sun was fleeting. This stock was once valued at US$149 billion. Qualcomm is now valued at a more reasonable US$55 billion.

Amazon.com traded at a high of US$113 at the beginning of the year. Today it trades for about US$30 a share.

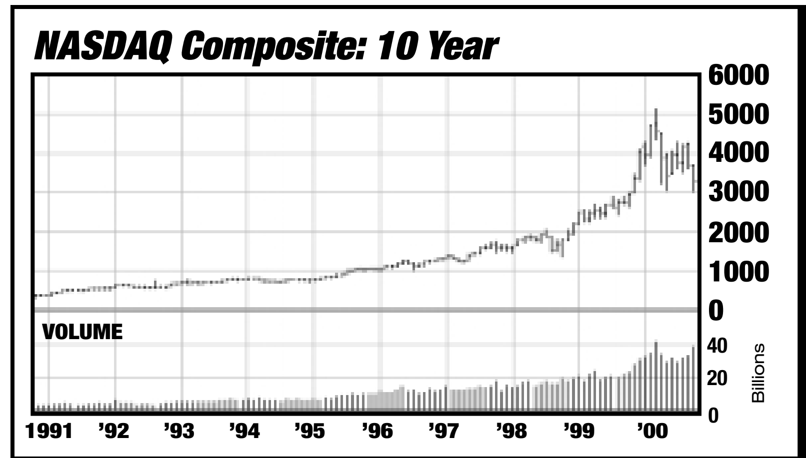
And the Internet company Yahoo! was worth more than US$137 billion in January. Today it's worth a modest US$32 billion. Incredibly, the stock has lost more than US$105 billion in market valuation.

Honestly, the devastation these companies have experienced is nothing compared to most of the other dot-com stocks.

In 1998, I wasn't a believer in the whole Internet stock mania. But peer pressure got the best of me in 1999. I thought the path to my pot of gold was paved with dial-up modems. So I initiated a couple of buy recommendations.

Because a loser is a loser

The losses in my recommendations have been mind-blowing. I bought one stock for around US$4 a share. It ran up to US$32. Today it trades for less than US$0.25.



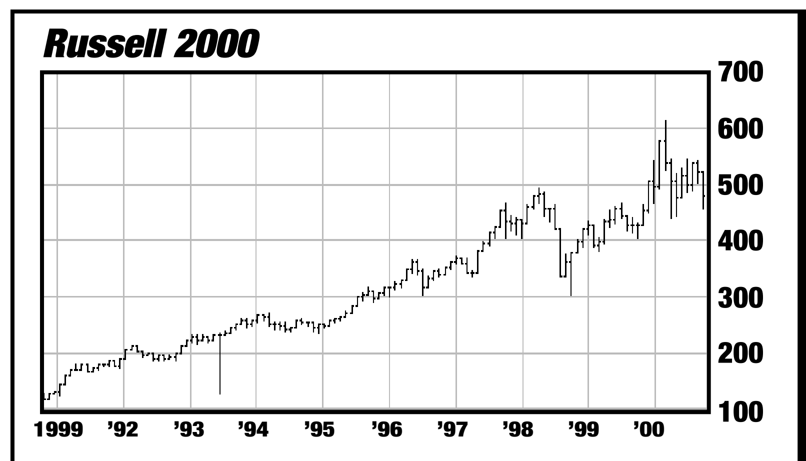
And it's just a matter of time before it goes out of business.

But let me tell you something – this is great for the broader market.

Even though millions of investors are taking it on the chin from these dot-bombs, the market is weeding out all of the failed business models and diverting speculative funds from the Internet into other emerging markets.

Namely, biotechs.

This is why I'm a raging bull on small and mid cap stocks. Not only are investors taking money out of big caps, they're beginning to put it into the small and mid cap stocks.



Take a look at the Russell 2000 index:

Even though the small cap index rose to record levels this year, the Russell 2000 is now trading at 1997 levels.

But there's so much growth and value at these market caps, it makes trading at such levels seem absurd.

There's precedent

Think back to what happened to the Russell in 1994. It was a down year for the broader market. After making record highs in early 1994, the Russell 2000 slid, posting a lost for the year.

The exact same price action is happening this year.

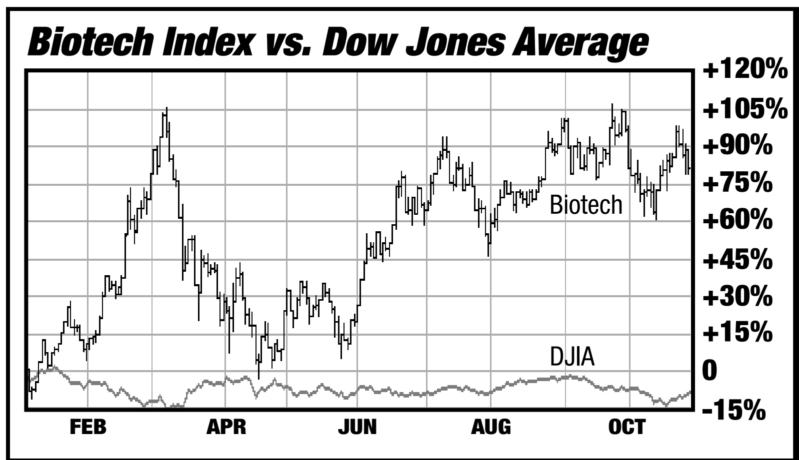
But after 1994 was over, the Russell – as well as the broader market – went on to a massive rally.

I'm expecting the same thing to happen again in 2001.

That's why I'm recommending that aggressive investors overweight in small to mid-cap stocks.

Stocks like **Aviron (AVIR:NASDAQ)**, **Optimal Robotics (OPMR:NASDAQ)**, **Univision (UVN:NYSE)**, **CheckFree Holdings (CKFR:NASDAQ)**, **Closure Medical (CLSR:NASDAQ)**, **Micros Systems (MCRS:NASDAQ)** and **Sensormatic (SRM:NYSE)**

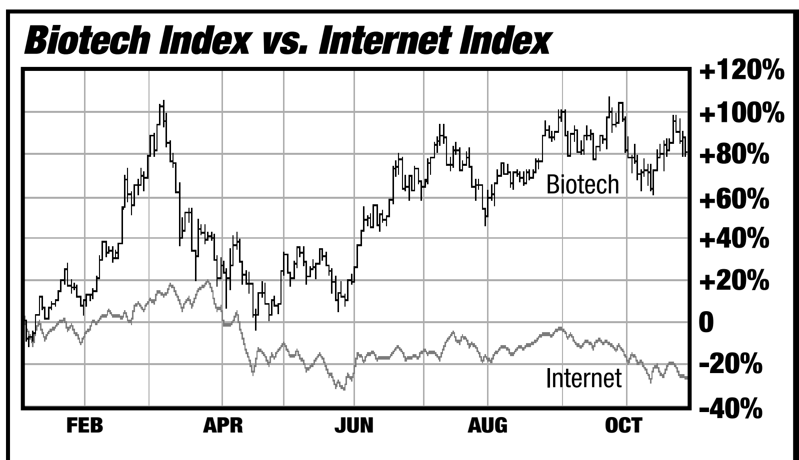
should provide above average growth over the next 5 to 10 years.



Taipan's biotech holdings will continue to sizzle in 2001

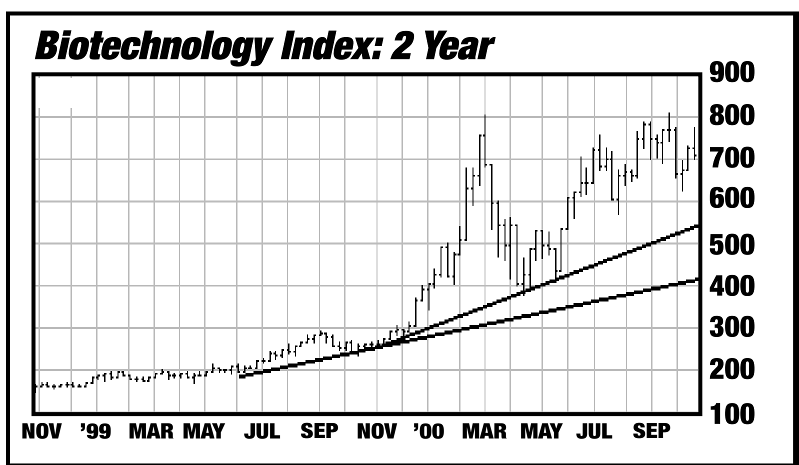
It doesn't seem so very long ago that I recommended my first medical technology stock in *Taipan*: a little-known company in the Research Triangle called **Closure Medical (CLSR:NASDAQ).**

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



Not bad.

We're back in it again, and I'm still bullish. Medical tissue cohesive products based on the company's cyanoacrylate technology for human and veterinary wound closure are still a relatively new concept among the medical community. That's why I continue to hold Closure Medical in the *Taipan* portfolio.



But that's not the point.

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

Zero. Not one.

Recommending a biotech stock at a cocktail party in 1996 all but guaranteed a donkey-punch right in the face. Believe it or not, that's the best sign for a market contrarian (not that I consider myself one). But nobody would listen to me then. Today it's a different story.

It's no different: biotechs will continue to carry the load of Taipan gains

I've made this point before, but it bears repeating – especially in a market where the best-performing mutual fund over the last 3 months is a technology short fund. That's right –a short fund.

If you want an indication of the biotech sector's current strength, take a look at the

AMEX Biotech Index. On a year-to-date measurement, the index is up a staggering 92%.

You're reading that correctly — **92%!**

Biotechnology stocks are devastating the rest of the market. Just compare the BTK to any of the major indices. As I write this, the Dow, NASDAQ and S&P 500 are all flat for the year, while biotechs are approaching triple-digit gains.

Check out the comparison.

Who will ride the wave? Millennium (MLNM:NASDAQ)

Without a doubt, Millennium is one of the leaders in the biotech sector. It's also my favorite *Taipan* holding.

I predict that Millennium will become one of the top three biotech stocks in the market within 10 years. Why? Because the company delivers a big bang for the buck.

Millennium is both a drug discovery company (traditional biotechnology and big pharma) and a genomics company. The scope of the company's platform is awesome.

Millennium is involved in three major areas: cancer, metabolic diseases (including obesity), and inflammatory illnesses.

The company also has significant programs for infectious, cardiovascular and central nervous system diseases.

Millennium has 9 products in the clinic. That's a massive pipeline.

And the list of the company's partners reads like a "Who's Who" of the biotech and pharmaceutical industry.

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

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

From this brief analysis alone, it's clear that the company is involved in some massive markets. This may account for its cash position (its R&D budget) of over US$644 million.

Currently the stock is trading at a market of around US$14 billion. This market cap should swell in the coming years. <u>And I wouldn't be surprised if Millennium is a US$100 billion company by 2010.</u>

With an original entry price at a split-adjusted valuation of US$9 a share, we are well positioned to ride Millennium for massive profits… even more than we have already. The stock recently tipped the scales at US$153 a share, a gain of 538%.

Another Taipan 10-bagger: MedImmune (MEDI:NASDAQ)

Following in the footsteps of Amgen, MedImmune produces two FDA approved drugs, Synagis and CytoGam.

Of the two, Synagis is the cash cow, accounting for 80% of the US$228 million in sales over the last 6 months.

Synagis treats RSV, a lower respiratory tract disease caused by respiratory syncytial virus. You might not have heard of it before, but RSV is the leading cause of respiratory illness and pneumonia in infants.

Most children contract RSV at some point in their lives, so this is a huge market. Since Synagis is the only drug to treat RSV, MedImmune currently has a monopoly.

With RSV season approaching and no other drugs capable of tackling the disease, I think shares of MedImmune will experience a rise leading up to 2001.

Hang on to MEDI. I think the stock could appreciate another 300 to 500 percent in the next five years.

Forget the flu shot: Take a deep breath with Aviron (AVIR:NASDAQ)

I've been following Aviron since 1996. It's a stock that I simply love.

I hate needles, but just like millions upon millions of people are doing right now, I recently got a flu shot… smack-dab in the arm. Aviron's lead product, FluMist, is an influenza vaccine delivered through a nasal spray.

This delivery method will soon do away with needles; reason enough for *Taipan* to initiate a buy recommendation. With a nasal spray, there is no pain.

Now, FluMist is entirely different from the recently approved Relenza and Tamiflu. Whereas these medications treat the flu, FluMist actually prevents you from getting it in the first place.

In a Phase III trial in children, FluMist demonstrated a 1% incidence of flu in treated patients, versus 18% for placebo. These results are staggering, prompting big pharma Wyeth Lederle to strike a marketing partnership with Aviron.

Assuming Aviron meets its milestones, the deal could be worth in excess of US$140 million.

FluMist has the potential to be a massive blockbuster, with estimated sales reaching an initial US$500 million.

Once the ramp-up in FluMist is complete, the top line of Aviron should grow at a robust clip, climbing from an estimated US$106 million in 2001 to over US$347 million in 2004.

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

So I see a huge upside – especially since our initial entry price was US$22 a share.

I still love BVA under US$3 a share

I love cheap stocks. Especially ones that make solid revenues in emerging sectors. **Bionova Holding Corp. (BVA:AMEX)** still meets all of my criteria.

BVA is a holding company that owns companies that grow, market, distribute, and genetically improve fruits and vegetables.

BVA generated revenues in excess of US$240 million in 1999, but now trades at a

market cap of only US$62 million! In addition, BVA's trailing three-month price-to-sales ratio is 0.12, while the industry average is 1.6.

What does this all mean to you? It means that BVA is grossly undervalued. Probably the most undervalued stock in its sector. If BVA traded at the industry price-to-sales ratio, it would trade at US$15 a share!

As a pure value play, **continue to hold BVA**

The Best of the Rest

A look at the Non-Biotech Taipan allocations: Sensormatic (SRM:NYSE)

Christmas season is approaching, and that means shopping. Next time you're at the mall, check out the security systems at the exits. I guarantee that most of them will be made by Sensormatic.

Sensormatic designs, manufactures and markets electronic security and tracking systems. Considering that they are trading at 1.3 times sales, I feel SRM is undervalued. Plus, I believe they have the best technology on the market.

This thesis was vindicated when SRM was chosen by the US Olympic Committee to provide the security systems for the USA's golden boys — the U.S. Men's Olympic Basketball Team.

We originally bought SRM at US$11, and it currently trades at US$16. *I feel a re-rating into the mid US$20s is possible.*

Here are my predictions for *Taipan's* microcap and small cap holdings.

Scan off: Optimal Robotics (OPMR:NASDAQ)

In this era of poor customer service, I think grocery stores are near the top of the list of bad actors. Screaming babies, grocery cart traffic jams, and clueless baggers who consistently put the milk on top of your bread give us all headaches.

I've never been able to figure out why grocers don't schedule more workers during peak hours.

After some research, I found the problem: labor shortage. According to *Progressive Grocer's Annual Report of the Grocery Industry*, 80% of retail stores cite front-end scheduling as their #1 problem. There simply aren't enough people applying for jobs.

The grocery checkout system is brutal – no question about it. But soon that will all change. Low unemployment levels and a greater need for improved customer service are forcing retailers to adopt new solutions… starting with the checkout process.

Retail checkout is in the midst of a major transformation, and **Optimal Robotics (OPMR:NASDAQ)** is leading the change.

I believe OPMR will increase at least 300% over the next 5 years. This might be a bold statement, but stocks tend to explode when the market accepts a new technology. And one by one, retail stores across the country are placing orders for the U-Scan Express self-checkout system.

Currently, there are only 118 of these checkout systems in use, but I think most grocery store chains will eventually adopt the U-Scan Express.

And why wouldn't they? U-Scan Express reduces the cost of checkout transactions, improves the level of convenience and service, is compatible with existing systems, and replaces three manned checkout counters with four automated stations requiring only one supervisor.

The U-Scan Express is the future of retail. And Optimal Robotics has the market cornered.

Optimal Robotics produces self-checkout consoles that (like ATMs or pay-at-the-pump gas stations) allow retail customers to purchase groceries and other merchandise with very little help from store clerks.

Optimal Robotics creates this consumer independence with their state-of-the-art retail checkout machine, the U-Scan Express.

The system requires only one cashier to operate four units, which would lower front-end costs for retailers by 120-150 hours per week. Plus, four U-Scan stations can handle 120-140 customers per hour, significantly decreasing checkout times and customer logjams.

But the real value for retailers is in cost savings. Typical profit margins for retail stores are less than 1.5%. As a result, retailers are constantly trying to find ways to cut operating costs.

The U-Scan Express eliminates the need for three full-time checkout employees. That amounts to 9,504 yearly hours, for a total operational savings of US$118,606.

Considering that the total capital investment for a U-Scan Express is US$105,000, the machine pays for itself in less than one year! Now that's what I call significant cost benefits.

Pioneering a new solution

More and more retailers are learning about cost benefits like these. Estimates for the nearly untapped self-checkout market predict massive growth.

Currently, Optimal has installed 650 systems in some 600 stores. This has grown Optimal's year-over-year revenues 427%! And that's only the beginning.

A large backlog of 200 U-Scan orders provides stability and revenue visibility for the coming year. 2001 estimates call for the total to reach 1,850!

Because of these strong growth dynamics, I think that Optimal's current 5% market penetration could shoot to over 50% in years to come – <u>which would push revenues up to US$500 million from the US$57 million OPMR realized in 1999</u>.

When you combine low penetration with a robust market opportunity, you usually arrive at strong growth potential. That is exactly what I see for the future of Optimal Robotics.

Continue to Hold Optimal Robotics (OPMR:NASDAQ) for more gains

**If you want to check out a U-Scan Express system for yourself, go to Optimal Robotics Website (www.opmr.com) and use their U-Scan "Store Locator" feature. Click on the store locator icon and type in your city and state to find the store with a U-Scan Express closest to you.*

Time to step up

Univision (UVN:NYSE), my favorite new economy stock, has recently seen increased competition. For the first time this is causing some market weakness.

After a stock split and a recent selloff, Univision is trading more in line with other U.S media networks, like FOX and Viacom. Since UVN peaked at US$63 a share, it has shaved 30% off its valuation.

What we have now is a great buying opportunity for long-term bulls. Here's why:

Back in line

During its rise, Univision traded at 52 times projected cash flow. Compared to FOX and Viacom, both of which trade at 23 times projected cash flow, that's a pretty stiff premium.

But investors were willing to pay a premium for the fastest-growing TV network in the nation.

Because of this growth, investors were looking for robust ad sales. They were somewhat disappointed.

The first massive selloff came on the announcement that upfront sales increased 18% from last year, amounting to US$501 million.

Not bad by any means, but the stock fell sharply because investors expected a 20% increase.

How to change?

After the way the market reacted to the last sales announcement, I think Univision will increase their ad rates to achieve uniformity with other networks.

Last year, Univision's prime time ad rates were 25% below the broader market.

This was mainly to attract advertisers. But now that they are an established network, they can charge advertisers in line with competing stations.

Estimates call for a US$1 billion increase if Univision sells a full pallet of ads at non-discounted prices.

But the revenue increases don't stop there. In the coming year, Univision's recently launched Internet presence (www.univision.com) is expected to attract serious attention from the U.S. Hispanic population.

Univision sees this Web site as a way to target Hispanic demographics.

If these plans succeed, the site should generate US$1.5 billion!

Back on top

As stated above, Univision once traded at 52 times projected sales. After the selloff, it dropped to 35 times projected cash flow. Now it's trading at a meager 23 times projected cash flow!

That's right in line with laggards FOX and Viacom – who stand no chance of matching Univision's growth rates.

Comparing Univision's cash flow multiple to their projected growth rate, I see no cheaper play in the market.

Continue to hold Univision (UVN:NYSE).

CheckFree (CKFR:NASDAQ)

If I had to name two stocks in the Cutting Edge portfolio that are "pure" New Economy stocks, CheckFree would top the list (with Optimal Robotics a close second). This is because CheckFree is changing the way money flows.

CheckFree is the leading provider of EBPP – electronic bill payment and presentment. With this new system, customers will soon be able to view and pay all their bills safely and electronically over the Internet. No more licking stamps or stuffing envelops. Paper-based financial transactions are about to become extinct.

E-Dominant

With over 850 financial institutions, 1,000 businesses, and 3 million customers using CheckFree's electronic payment and billing services, they are by far the dominant player in online payment transactions.

CheckFree has maintained its competitive edge by pure muscle power. They have simply bought out any competitor that has threatened the company. BlueGill and Transpoint both fell into that category. Such strong market power proves that CheckFree is determined to be the leader in online payment transactions.

The only negative for CheckFree is that e-bill payments have been inconsistent and slow to catch on. But I see that as an opportunity.

As CheckFree increases their e-bill contracts (they currently have 27, with projections of 120 by year's end), people will begin to realize the benefits and convenience of paying bills online.

Personally, I'd rather buy new economy stocks long before the Street realizes their true potential.

At these levels, CheckFree is a fundamentally cheap stock in a massive growth sector.

My 6-month price target is between US$60 and US$65 a share.

Rounding it Out

A short overture on remaining open positions:

Micros Systems (MCRS:NASDAQ) designs, manufactures, markets and services restaurant point-of-sale systems, hotel property management systems, and hotel central reservation systems.

Currently trading at US$17 a share (with a 52-week low of US$14), there is no reason to sell now.

Continue to Hold MCRS.

Taipan "Sell" Positions: A review of our recent Taipan sells

AVI Biopharma (AVII:NASDAQ)

AVII has two leading platforms, Cancer Immunotherapy and NEU-GENES, both of which are specifically aimed at solving the challenges faced by today's pharmaceutical products. SuperGen, their cancer drug, is set to continue on to Phase III of FDA clinical

trials. Plus, they have two other drugs in Phase I and Phase II.

We originally bought AVII in *Taipan* for under US$3.50 a share. Today it trades for about US$8 a share — **giving *Taipan* a nice gain of 128%.**

In the last *Taipan* issue, we sold AVII and took profits.

Agritope (AGTO:NASDAQ)

Agritope was a speculative play on agricultural biotechnology. With all the hoopla surrounding the genome project, the "original" biotechnologists — farmers — were getting overlooked. We initiated a trade on AGTO for around US$4 a share.

We recently sold Agritope on the news they would be acquired by **Exelixis (EXEL:NASDAQ)** for as much as US$14 a share. This caused AGTO to jump 60% in one day.

I don't like waiting around to sell. Many things can happen — like the deal falling through. We bought AGTO at US$4 and sold it for US$11 a share. That's a gain of 175% since May 2000. I can live with that.

New Taipan Sells

Free up some capital – Sell these Taipan holdings

Along with the recent *Taipan* "sell" allocations, I would like to take some profits on current holdings, like **Pharmaceutical Product Development (PPDI:NASDAQ).**

We originally bought PPDI because they provide research, development, and consulting services in the life and discovery sciences segments. Their life sciences business is the fourth largest contract research organization in the world.

Our original entry price was US$22 a share. With PPDI currently trading at US$30 a share, I would like to take our 27% profit now. I think there are more attractive biotech plays. **Sell PPDI at the market.**

I would also like to sell **Ballistic Recovery Systems (BRSI.OB:OTC).** Of my many *Taipan* picks, this stock was the biggest loser. Oh, well. We've had plenty of winners.

I thought JFK Jr.'s plane crash would spur a nationwide rollout of increased safety measures on small aircraft.

It didn't happen. So, lets move on. **Sell BRSI.OB at the market.**

Outlook for IPOs in 2001

by Siu-Yee Ng

Once a bureaucrat in the State Department, Siu-Yee Ng has formed a network of contacts worldwide. Originally from Hong Kong, Siu-Yee is the newest member to join the Taipan *team as the IPO research analyst.*

She follows each filing, and looks at each company's potential for a solid public debut and for a long-term winner. She followed eBay, Inc. in its public debut with first day gains of over 197%. Perot Systems, another pick, proved to be a big winner, posting a 171% gain in the first day alone.

It came as no surprise that 2000 failed to repeat the mania of 1999. The IPO market never repeats itself. And there's no doubt 1999 was the best year for IPOs.

To predict what will happen in 2001, we must first examine the trends in the new issues market. In 1999, two records were set – dollar volume and aftermarket performance. A total of US$100.6 billion was raised, breaking the previous record of US$57.86 billion set in 1993. Following the 1993 record-breaking year, Wall Street raised only US$33.84 billion the next year, a failing to match or beat 1993's IPO performance.

The average 1999 year-end gain in the aftermarket was 199.5% per issue. The previous record was set in 1995 when the average gain was 39.4%. In 1996, IPOs registered an average gain of 16.8% each, failing to springboard off 1995's stellar performance. Once again, we see that the IPO market doesn't make back-to-back records.

Also, consider the overall 1999 market performance. Keep in mind that the IPO market lives and dies by the NASDAQ Composite Index. Last year, the red-hot Composite ran up 85.6% to close at 4,069 – up from 2,192 on December 31, 1998 – thereby setting a record single-year gain. And this benefited the new issues market. The NASDAQ continued to soar in the first quarter of 2000.

127 IPOs debuted in the first quarter of 2000, raising US$28.3 billion. The average deal raised US$220 million, much more than the 59 deals netting US$10.5 billion during the first quarter of 1999. Most IPOs in the first quarter of 2000 were priced above the expected range. But with the market correction in late March and continuing into April, there were doubts about whether the new issues market would be able to continue grabbing huge premiums in upcoming debuts.

Whether they admit it or not, everyone knew that the lofty valuations of the Internet companies could not last forever. With so many companies competing in so many specialized niches, it was obvious that winners and losers would quickly emerge after the dust settled.

By the end of the first quarter of 2000, dot-coms were no longer Wall Street's darlings. An Internet strategy was no longer a business plan in and of itself. Instead, the execution of a business plan in addition to profits became the hallmark of companies with solid valuations.

Even before the market selloff in March, new issues were experiencing a slowdown. The IPO market runs in an endless cycle. With the success of IPO debuts at the end of 1999, underwriters brought many young companies public in the first quarter 2000. This not only caused an oversupply problem, but the overall quality of the companies was also in question. The inevitable result was that the new issues market went into the next cycle of decline.

The market was hot in the first quarter of 2000, and it seemed as though any new company could make it. Overall, this depressed returns for new issues, adding to the market turmoil by the end of the quarter.

This is an endless cycle, and investors have seen such corrections before. During the Asian crisis in October 1998, the IPO front was quiet, with few high-flying debuts. Remember **eBay, Inc. (EBAY:NASDAQ)**? This online auction company debuted in September 1998, and by October was trading as low as US$25.00. The market recovered, and now eBay is a household name. eBay reached a high of US$255, and that's after a 3-for-1 stock split.

Let's take a look at last year's April–May selloff. By the end of August 1999, analysts were forecasting the end of the IPO market. But it quickly recovered. **F5 Networks (FFIV:NASDAQ)** debuted during the selloff in June 1999 and traded as low as US$10.25. Then it rallied with the market, trading as high as US$160 by November. **Digital Island (ISLD:NASDAQ)** debuted in June and traded as low as US$9.15. By December 1999, it had rallied to US$160.

My point is that even with a market correction, investors can still make money. Look at the weakness in the IPO market as a buying opportunity. Investors have the opportunity to buy leading companies at reasonable prices. It's important to stick with the hot sectors and pay attention to the company's fundamentals.

Three key factors

New issues are subject to three volatile influences.

Trading momentum is the key influence for the performance of a new issue. Even before an IPO debut, there is a certain amount of interest generated. If the IPO is deemed hot even before it debuts, then the stock will do well. But trading is volatile. There could be huge gains or drops within a few hours.

The second major influence on a new issue is the overall performance of the market it's in. Investors are no longer just looking at the company. If the industry is hot, then the IPO will be sizzling, too. Most issues have rapid sales growth off a small base and a large loss growth. Some of these will become the next big thing, but it's hard to tell which ones. So investors are bidding the entire area. If other public companies in the same industry are performing well, the IPO will likely do well also.

Finally, a small supply influences short-term gains on new issues. When investors have fewer options, they tend to buy into companies regardless of quality. So these companies will perform well in the aftermarket. But when the market is crowded, the earlier hot IPOs tend to fall. So when buying in the aftermarket, it's imperative to recognize the cycle the IPO market is in.

Sell or buy?

The IPO market is thinning and many IPOs are postponing their debuts. Who can blame them? During the week of April 10, NASDAQ fell every day. Panic selling rocked the market and it fell below the 4000 mark. Most analysts thought that would be a bottom. But the index continued to fall.

There was another panic sell in October as money managers were unloading their losers for tax write-offs. This explains why October is historically one of the worst trad-

ing months of the year. It's the end of the fiscal year for money managers, and they are dumping their losers for tax write-offs and polishing their portfolios for shareholders. The IPO market managed to survive the bloodbath with an average third quarter IPO return of 62% and a healthy 15% in the aftermarket.

Volatility delays many IPO debuts, but those that do make it out the door will usually be the stronger deals. And those that do debut generally trade at reasonable prices, making it possible to build positions in these companies. When the market rebounds these investments will pay off.

As we head into 2001, IPO investors have a few things working in their favor. High on the list is what will likely be a moderating interest rate environment. Considering that about half the American population is somehow invested in the market, the economy is more sensitive to wealth effects than at any other time in history. The Fed will need to take this into account when making interest rate policies. High oil prices, a weak Euro, and a tightening of consumers' purse strings make it unlikely that the Fed will raise rates anytime soon. If the Fed hopes to achieve a soft landing for the economy, we might even see a rate cut. This would be great for the IPO market!

Firms to watch out for

Technology stocks got hammered this year. It's not surprising to see the NASDAQ in negative territory after a record-breaking year. But for some investors it was a tough time, with the dot-com darlings of 1999 and the beginning of 2000 falling out of favor. Any fool can see that selling goods for less than what you paid for them isn't sustainable. In fact, a lot of people questioned that strategy, but that didn't stop e-tailing stocks from soaring.

Now we're witnessing a cleansing of the sector and the "anything-goes" mentality. After years of a seemingly endless and accelerating boom that allowed just about anybody with a business plan and venture money to go public, the market is finally rebelling.

It's also pretty easy to see what business models are out of favor. Business-to-consumer is out, advertising-based businesses are on the fence, and a lot of business-to-business companies are struggling.

It's less easy to anticipate what models will work. But there are several that are bound to get some attention as we head into 2001. And in *The IPO Trader*, I'll keep you informed of any new developments.

XML – what's that?

Extensible Markup Language (XML) functions as a kind of glue for holding a host of B2B exchanges together. Without XML, businesses would not be able to get their systems to work together.

As the Internet becomes a necessity of life, companies around the world are faced with the challenge of re-creating themselves as electronic commerce companies. The first generation of e-commerce consisted primarily of basic Web sites offering product information for marketing purposes. But this is not enough anymore. Today the stakes are higher. Companies now need to create value-added relationships with suppliers and distributors, and offer differentiated and unique online services to customers.

By extending core business processes over the Internet and integrating systems with suppliers, distributors, and customers, these companies will achieve a significant competitive advantage, increased customer satisfaction, and new sources of revenues. This next generation of e-commerce, often referred to as e-business, is transforming the way business is done, and has given rise to the "Internet economy." So you can see why XML-based solution providers are in high demand.

We recommended **OnDisplay, Inc. (ONDS:NASDAQ)** in *The IPO Trader*. Since then it was acquired by **Vignette Corp. (VIGN:NASDAQ)**. OnDisplay, Inc. offers a suite of software applications that helps companies deploy and manage e-business portals and e-marketplaces. Its CenterStage product suite allows both business-to-business and business-to-consumer e-commerce companies to automate and continuously manage the flow of information and transactional data among suppliers, distributors, customers, and other trading partners.

Vignette makes content management software for e-businesses. Despite posting its fourth straight quarter of positive cash flow from operations in Q3 2000, it failed to attract investors. Vignette's alliances with IBM and Dell, plus an extended partnership with Sun Microsystems, will help it expand its market share and accelerate growth. There are concerns about the company's direction and a recent increase in the rate of day sales outstanding (the amount of time it takes for a company to collect on accounts receivable).

But Vignette is improving its DSO rate. During the Q3 2000, it declined from 126 to 87 days. Despite positive market coverage, Vignette has failed to generate investor interest. But as the story catches on and investors understand Vignette's market opportunity, the company's share price will be rewarded.

Security in Cyberia

On June 30, 2000, President Clinton signed into law a bill that makes electronic signatures as valid as their ink counterparts. The new law kicked in on October 1, 2000. You can imagine the enormous number of companies that will need to beef up their security.

Verisign (VRSN:NASDAQ) is one of the big players right now. Verisign is a fairly young company that debuted on January 30, 1998. It is the leading provider of digital certificate solutions needed by companies, government agencies, trading partners and individuals to conduct trusted and secure communications and commerce over the Internet as well as over intranets and extranets using the Internet Protocol (collectively, "IP networks").

Verisign provides Digital IDs for individuals and Web sites, and turnkey and custom solutions allowing organizations such as Dow Jones, NOVUS/Discover, and VISA to conduct trusted and secure communications and commerce over IP networks.

Forrester Research estimates that Internet business-to-business commerce alone will grow from approximately US$8 billion in 1997 to more than US$327 billion in 2002. The market opportunity is enormous. So expect *The IPO Trader* to keep you updated on any new entrants in 2001.

Going wireless

One estimate shows that 45% of wireless traffic in 2003 will be data. In 1999, data

only accounted for 2% of wireless traffic. Despite the beating in this year's telecoms, wireless will still be the next generation growth platform.

Individuals are increasingly using wireless communications devices to provide them with convenient and constant access to information whenever they are away from home or office. IDC estimates that in 1998 there were 303 million worldwide cellular and personal communications systems subscribers, and IDC expects that number to increase to approximately 1.1 billion in 2003.

According to The Yankee Group, the number of mobile users is expected to exceed 1 billion by 2003, with approximately 60% capable of wireless Internet access.

And now we see many people using handheld mobile devices, like those produced by Palm, Handspring, and Hewlett-Packard, to remotely access and manage personal as well as business information. According to IDC, worldwide sales of personal handheld mobile devices are expected to increase from approximately 8.3 million units in 1999 to approximately 35.5 million in 2003.

For the most part, this continuing growth will be fueled by convenience and technological advancements. The following factors will generate the wireless revolution: the increasing dependence of many people on information stored or accessible through their handheld mobile devices; their desire to conveniently and remotely access personal and business information wherever they may be; and continuing technological innovation, including improved wireless connectivity, increased storage, and performance characteristics.

In areas where wireless services are widely available, individuals have shown considerable interest in receiving those services. In Japan, for instance, NTT DoCoMo, the wireless affiliate of Nippon Telegraph and Telephone, Japan's largest telecommunications company, offers a wireless data service through its mobile telephones. NTT DoCoMo reported more than 12 million users of its wireless service, after having launched the service just a year earlier in February 1999.

Wireless services will enable Internet access, email messaging, e-commerce transactions and information updates 24 hours a day, 7 days a week, without regard to the location of the mobile user. Service providers will also eventually be able to provide users of handheld mobile devices with location-specific information, such as mapping, directions, movie and theater listings, restaurant addresses, and weather.

The Internet has become an increasingly important part of daily life because of the broad range of content and data available to end users. To be successful, a wireless service must provide the mobile user with access to nearly the same broad range of Internet data and content that is available on the personal computer.

Much of the content and data available on the Internet today was created for use and viewing on large computer monitors, and is not easily or effectively used or viewed on the relatively small display screens of most handheld mobile devices. Several companies and technologies have recently emerged that enable content providers to modify their Internet content and data for enhanced use and viewing on handheld mobile devices; this process has recently become known as "optimizing" Internet content and data for use on handheld mobile devices.

Wireless Internet service firm OmniSky Corporation debuted at US$12 per share on

September 21, 2000. The IPO came shortly after **OmniSky (OMNY:NASDAQ)** started selling its monthly service, which is available through wireless modems on handheld computers by **Palm (PALM:NASDAQ)**, **Handspring (HAND:NASDAQ)** and others.

OmniSky's wireless portal organizes information into various categories, including entertainment, finance, news, shopping, sports, travel, and local information. It allows for text-based searches, and can be customized by the subscriber. OmniSky provides subscribers with access to Internet content in a format that is modified for enhanced viewing and performance on small display screens.

OmniSky receives content from more than 1,000 links to popular data sources and content providers, including CNBC, eBay, ESPN, E*Trade, Ticketmaster, Fox Sports, and Yahoo!. With its wireless service, subscribers also have the ability to browse virtually any Web site, whether or not the content of that site has been modified for use on handheld mobile devices. For a fixed monthly fee, OmniSky gives subscribers nationwide access, unlimited usage, and full-time customer support.

The company was founded in May 1999. It began testing its wireless service in December 1999. The wireless service was launched nationally in May 2000. The company is still young and the big challenge is market confusion.

OmniSky is pulling email and e-commerce into an interface that is simple to use and optimized for the mobile user, but richer than anything available on a mobile phone. OmniSky is a very speculative play on the wireless revolution.

Broadband gear

Broadband services aren't quite here yet, because cable and DSL services are still in the early stages. There's a reason folks are spending billions on revenueless fiber optic companies. It's about rolling out the next generation of networks.

The combined use of the global Internet and the World Wide Web is clogging up existing public telecommunications networks. As electronic mail, commerce, application hosting, telephony, and real-time multimedia become a routine medium for businesses and consumers, demand for additional high-capacity network access technologies will increase substantially.

RHK, Inc., an industry research firm, estimates that North American data traffic capacity reached 350,000 terabytes per month in December 1999, compared to just 50,000 terabytes per month for voice traffic in the same period. Data traffic capacity is expected to increase to approximately 16 million terabytes per month in 2003. Internet traffic alone is growing by approximately 200% per year. So public network bandwidth will have to increase at least as fast to satisfy tomorrow's Internet and other data traffic requirements.

Today's networks generally use fiber optic cables and connections, which use light, rather than electricity, as a communications medium. These cables are connected to equipment that filters, amplifies, and switches the streams of data carried by the light flowing over the network.

Network service providers currently use two primary methods for managing and transporting traffic within their optical networks – SONET/SDH for operational features and DWDM for additional capacity.

Synchronous Optical Network (SONET) in North America and Synchronous Digital Hierarchy (SDH) in Europe and other countries are based on standards that govern the management of traffic within an optical network. SONET/SDH equipment aggregates multiple, low-speed signals into higher-speed connections for transport across the optical network.

Dense Wave Division Multiplexing (DWDM) is an optical transport technology that dramatically multiplies the amount of traffic that can be carried over a fiber optic network by dividing each beam of light into multiple discrete channels. Service providers have widely deployed DWDM technology to relieve capacity bottlenecks within their long-distance networks.

The problem with this is that as hundreds of channels are added and changed across the network, complexities and inefficiencies increase. DWDM equipment alone is incapable of performing key SONET/SDH functions that ensure reliable network operations, including performance monitoring, fault location, and service restoration. For this reason, service providers have typically deployed both SONET/SDH and DWDM equipment in their optical networks.

The limits

There are many key limitations to the existing network architecture.

SONET/SDH systems were originally designed to support voice traffic. They convert and aggregate multiple dedicated voice channels into higher-speed channels. Sure, this provides quality delivery of traditional voice traffic, but it's inefficient for unpredictable and dynamic data traffic that does not fit neatly into channels. SONET/SDH standards cannot support huge data traffic spikes efficiently at a reasonable cost.

SONET/SDH equipment typically uses ring architecture to connect several intersections or nodes in a network. If there's a single fiber cut or a single equipment failure between two points on the ring, this structure immediately redirects the signal through the reverse "protection path" of the ring. This makes sense, but it takes months to test and deploy. Also, every SONET/SDH service channel is duplicated on a backup channel, which forces half of the overall capacity of the network to be dedicated to backup capacity that is rarely used.

Current network upgrades are difficult and expensive. All the SONET/SDH equipment in a given part of the network must operate at the same speed. If a service provider increases the speed in one part of the network, every other part of the network must be replaced with new and costly equipment in order for the upgrade to be effective. This takes months of intense planning and deployment.

Each new DWDM channel must be permanently connected or "hardwired" to the existing network, a time- and labor- intensive process. These permanent connections limit the ability to respond to service requests quickly. Service providers must therefore route new services across their networks in inefficient ways, using more equipment and connections and creating more points of failure in order to achieve the desired connection.

So you can imagine that current networks are difficult to provision. They contain large numbers of individual pieces of equipment, each of which must be separately configured, connected, and reconnected in response to every new customer order. These efforts require a "truck roll," a process where technicians are dispatched to multiple

locations in the network to reconnect paths, install hardware, and configure software, often requiring hundreds of separate procedures. Provisioning time is often measured in months and requires the efforts of a large, highly skilled workforce equipped with specialized tools and knowledge.

Another strike against SONET/SDH equipment is that it currently requires substantial central office space and power, which becomes problematic as the network expands. As a result, space for equipment has become scarce and expensive. The increase in the amount of equipment has also resulted in additional power consumption, cooling requirements, and other overhead costs.

Because of these limitations, service providers face considerable costs in building and managing networks, costs that are unlikely to be recovered over an acceptable period of time. Each delay in service delivery means lost revenue and lower customer satisfaction.

To date, the steps that service providers have taken to address these limitations have largely been tactical and incremental, such as buying more fiber, installing new SONET/SDH rings, increasing the speed of existing rings, and employing more DWDM to increase fiber capacity. Service providers are seeking more strategic solutions that remove these limitations by upgrading the architecture of their optical networks in a cost-effective manner.

Networking

Bottom line: service providers need to migrate to a new network architecture optimized for data rather than traditional voice traffic. It must support the delivery of optical services, anywhere, at any time, to any customer. Emerging service providers need a network architecture that allows them to grow quickly with relatively low up-front capital costs. And they need reliable, modular equipment that reduces operating expenses while maximizing revenue opportunities.

The new network must allow service providers to rapidly provision and restore high-performance bandwidth to end users on a real-time basis, while significantly reducing manual provisioning and other time-intensive processes. As competition increases, the new network must be flexible enough to allow service providers to differentiate themselves and increase revenues by providing their customers with new value-added services. The operational and maintenance costs of the new network must also be lower than the current architecture with respect to "truck rolls," personnel, space occupied, power consumption, and cooling requirements.

The new system must allow service providers to reduce the amount of equipment required to deploy and expand the network, so they can reallocate capital and assets for new services and additional capacity. And it must be flexible enough for continual upgrades.

Today's network architectures are generally fixed in nature. So their ability to implement breakthrough technologies such as all-optical switching is limited. Service providers need a consistent and upgradeable solution without major disruptions to the design of the network.

Given the many pressures that service providers face, they do not want to risk their networks by deploying unproven technology or products. So new solutions must have been thoroughly tested and verified in previous deployments and comprehensive testing

and evaluation.

After Nortel warned of slower revenue growth, the fiber industry took a beating. Stocks like **Avanex (AVNX:NASDAQ)**, **New Focus (NUFO:NASDAQ)** and **Corvis (CORV:NASDAQ)** have fallen dramatically.

Are fiber optics just a fad with investors, or will this be a growth sector for many years to come?

Fiber optics will be hot for a while. Optical networking is very different from previous fads like Web communities, Linux, and content. In general, infrastructure stocks seem to be a good bet on the continued growth on the Internet, because regardless of what gets bought and sold or what people watch and read on the Net, there is a real need to make the pipes that transmit all the data better and faster. There's huge potential here.

The solution

Tellium, Inc. designs and develops high-capacity, intelligent optical switching solutions that enable network service providers to quickly and cost-effectively deliver new high-speed services. Its first-generation products are field-proven, having been in service for more than a year. Second-generation products are currently undergoing laboratory evaluation with global service providers. The newer products benefit from the experience gathered from over a year of live service with the company's first-generation solutions.

Tellium's optical switches provide many key benefits to service providers. Its optical switching solutions are designed to enable service providers to reduce costs by deploying mesh architectures rather than SONET/SDH rings. In a mesh architecture, nodes are connected to any number of other nodes, allowing for multiple paths through the network. With this "any-to-any" design, mesh architectures are more efficient in their utilization of protection capacity, while still permitting rapid restoration of service after a network failure. In addition, mesh networks are simpler to operate, administer, and maintain than SONET/SDH ring networks.

Tellium's optical switching solutions help service providers create scalable and flexible optical networks. They enable a new generation of high-speed Internet Protocol (IP) routers and Asynchronous Transfer Mode (ATM) switches to deliver data directly to the optical network, bypassing costly SONET/SDH equipment. Service providers can integrate their existing equipment with Tellium's optical switching products to deliver data services with improved scalability, flexibility, and survivability.

Tellium's solutions allow service providers to provision services across their networks in a matter of minutes, replacing a process that can often take months. Its advanced administration and management software allows service providers to add or reduce capacity from a central management workstation in anticipation of changing end-user needs. This saves costly and time-consuming "truck rolls." As a result, re-routing traffic around network bottlenecks or failure points becomes easier, allowing service providers to offer their customers on-demand provisioning and real-time restoration functions.

In a highly competitive industry, Tellium's customers are able to differentiate themselves from their competitors by offering faster, more reliable services with increased flexibility. Tellium's solutions convert the optical network from a "hardwired" system, which is costly and difficult to change, to a dynamic system in which it is easy to add or

change configuration and components.

A new era

Tellium's line of Aurora optical switches let service providers automate the delivery of optical services, reduce their costs by enabling optical mesh networking, restore optical services in the event of network failures, and redirect traffic around network bottlenecks. They also provide the ability to connect high-speed IP routers and ATM switches directly to the optical network, with no need for additional expensive SONET/SDH equipment.

The optical switches and software provide many key benefits to service providers. They are designed to reduce client costs by deploying new architectures that are simpler to operate, administer and maintain, more efficient in their utilization of protection capacity, and provide better restoration capability than current architectures.

Tellium's optical switching solutions include modular, scalable products that allow its customers to retain their investments as they expand capacity and automate operations; this enables service providers to eliminate costly equipment while retaining the functionality that they expect. Another plus is that Tellium's solutions are by design highly flexible in their configuration and upgrade capability because all of its products share a common hardware and software platform.

Double up

From May 1997 to September 1999, Tellium developed and manufactured wave division multiplexing products and the initial versions of its Aurora 32 optical switch for the U.S. Department of Defense. All of its revenue in 1998 and the first two quarters of 1999 were derived from the defense contract. That contract is about to expire and no future revenue is expected from this source.

The second quarter of 1999 was Tellium's turning point. The company decided to focus on developing its optical switches and discontinued its wave division multiplexing products. In September 1999, Tellium shipped its Aurora 32 optical switch to Extant, and in the third quarter of 2000 it delivered its next generation Aurora optical switch to Extant for evaluation. Tellium expects to begin commercial shipment during the first quarter of 2001.

Tellium currently has three major customers: Cable & Wireless Global Networks Limited, Extant, and Qwest Communications. Extant accounted for 99% of its revenue for the six months ending on June 30, 2000. I hate to see such dependence on a few customers. Then again, Tellium just began shipping its products, so it's still adding clients. It's critical for Tellium to grow its customer base.

Qwest and Cable & Wireless are new to Tellium's customer list, so it's not surprising to see Tellium relying heavily on its agreement with Extant for revenue. I expect to see this change in the future.

Another risk is that Extant is being acquired by Dynegy, Inc. Dynegy may decide not to proceed with Extant's planned network build-out on a timely basis, or at all. If Extant were to reduce the amount of products and services it obtains from Tellium, the latter's business and financial performance would suffer.

Thank goodness Tellium has signed on two more customers to help relieve its dependence on Extant. Cable & Wireless has made a commitment to purchase a minimum of

US$350 million worth of Tellium's optical switches over the next five years. Tellium should begin commercial shipment to Cable & Wireless during the first quarter of 2001.

Recently, Qwest has made a commitment to purchase a minimum of US$300 million worth of Tellium's optical switches over the next three years. Shipment under this contract with Qwest should commence during the first quarter of 2001.

Tellium is planning to raise US$250 million in its IPO with lead underwriter Goldman, Sachs & Co. Other underwriters involved with the offering are Thomas Weisel Partners LLC, J.P. Morgan Securities, Inc., CIBC World Markets, and Wit SoundView. If you miss the offer, *The IPO Trader* will let you know when to get in on the aftermarket.

Fuel for 2001

Decades ago, fuel cells were hailed as a savior technology for the energy industry. But since then the technology – which promises to replace nonrenewable energy sources like oil and also help reduce pollution – has developed very slowly. But fuel cells will soon have their day in the sun. Buses powered by fuel cells were tested in California in 2000. By 2003, California emission standards will require 10 percent of cars sold in the state to have zero emissions. Other states have emission standards that will force large auto companies to produce these fuel-cell powered vehicles. Mercedes-Benz has announced that it plans to build 20 to 30 buses powered by fuel cells, which will go on sale in Europe in 2002. Ford Motor Co. plans to use fuel cells in its 2004 cars. Investors are now plowing money into this promising technology, which Goldman Sachs estimates could be a US$95 billion market in ten years.

Here's how they work. Fuel cells convert chemical energy into electricity by breaking apart hydrogen bonds in the water molecule and using that energy to generate a flow of electrons. The same process can be used to power everything from cell phones and laptops to cars and buses. Some supporters of the technology have gone so far as to predict that fuel cells have the potential to transform the energy industry in the same way the microprocessor transformed the information industry.

Although the fuel cell concept dates back to the 1830s, it has only recently been developed into practical applications as an environmentally friendly and efficient energy technology. One reason for recent developments is that costs associated with producing fuel cells have fallen dramatically, now approaching the 1 to 2 cents per kilowatt-hour that it costs to produce electricity from oil or gas. Fuel cell projects are getting off the ground just as consumers and businesses in the United States and Europe are being hit with rising fuel and electricity prices – a situation that led to President Bill Clinton's September release of strategic oil reserves.

Other factors are contributing to the sudden interest in fuel cells. Around the globe, governments have been adopting more stringent air pollution regulations. At the same time, states and nations are in the process of deregulating their power industries. Meanwhile, utilities are facing increased demands for reliable power.

Several states are now in the process of deregulating their utility markets. Among them, Connecticut, Maine, Texas, Illinois, and California have passed regulations that require a specific percentage of renewable-energy sources.

The market for fuel cells breaks into three distinct categories: residential, commercial, and transportation.

Among the players in the residential market are **H Power (HPOW:NASDAQ)**, **Plug Power (PLUG:NASDAQ)**, and **Avista (AVA:NYSE)**, all of which are now testing fuel cells in the field. Plug Power, in partnership with General Electric **(GE:NYSE)**, is looking to produce fuel cells capable of delivering 250 to 300 kW, which is sufficient to supply power for a small hospital. The two leading companies developing both transportation and stationary residential and commercial applications are International Fuel Cells, which has been producing fuel cells for 20 years for the U.S. space program, and Ballard Power Systems **(BLDP:NASDAQ)**.

Fuel cell technology will give consumers the option of producing electricity for their own homes using a variety of small (1 to 3 kW) fuel cell generators being developed by Plug Power, which specializes in fuel cells for powering individual homes. Consumers will also be able to resell unused kilowatts back to the local utilities managing the power grid.

As with anything, there are benefits and drawbacks. Fuel cells can use several different types of fuels, primarily hydrogen, methanol, propane, and gasoline, thus opening up choices for consumers. However, there's a downside to this freedom of choice. Without a single standardized fuel, it's hard to scale up the distribution network that would be capable of profitably delivering fuel to automobiles and power generators. Not only that, but any new fuel choice will require conversion of existing gas stations and a host of additional conversion costs.

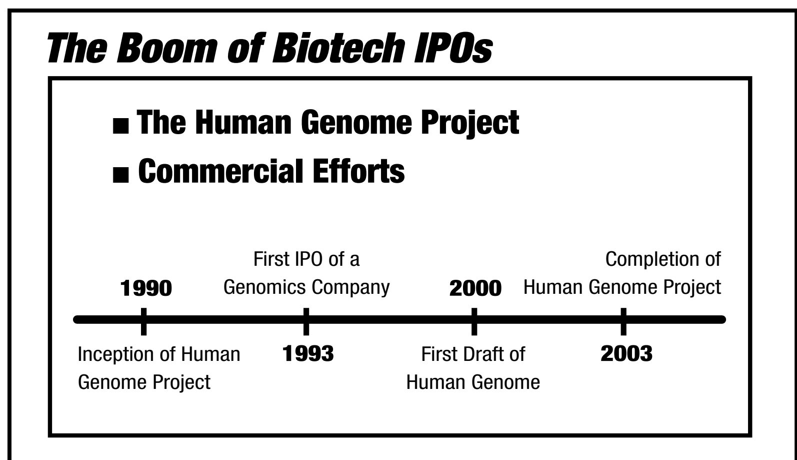
Companies developing fuel cells also face a classic supply-and-demand conundrum: will fuel cell manufacturers be able to increase production capabilities quickly enough to meet the expected demand?

Nevertheless, fuel cell related IPOs in 2001 fared well, and they will continue to grab market attention in 2001.

It's the genes

In 1991, the biotechnology industry boomed and investor enthusiasm sent shares soaring. The sector rose almost 150% before losing 40% of its value in the first five months of 1992. Since then the industry has grown up, with major players like **Amgen (AMGN:NASDAQ)** and **Biogen (BGEN:NASDAQ)** generating profits with proven drugs and new ones in the pipeline.

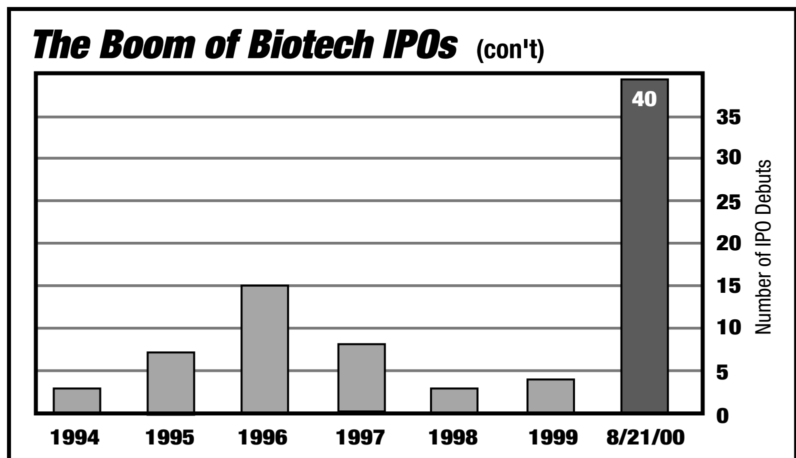
The sector experienced another surge in 1999, rising over 100%. The mapping of the human genome and promises of breakthrough cures fueled this enthusiasm.



Biotechs rallied in the beginning of 2000, but halted in mid-March. By early April, as biotech roadshows began, unease about growth stocks spilled over into other technology stocks. By then the biotech index was

trading 47% below its March high. The market is recovering, but investors are nervous about putting money into volatile high-risk stocks. This is the time to buy new issues cheap.

Bringing a drug to market is a long and expensive process that requires financing. Emerging biotech firms seek funding from major pharmaceutical companies as well as from the private and public market.



Will we see another biotech bust like the one we saw in 1992? I think not.

Consider this: A quarter of U.S. industry's sales come from therapeutic and diagnostic health products. More than two dozen biotech companies debuted in late February 2000, with 40 new biotech issues debuting by August 21. Compare this with last year's four biotech IPOs.

Now that the sequencing of the human genome has been completed, the current phase of genomics is increasingly focused on the identification and analysis of the estimated 3 to 10 million genetic variations it contains. Genetic variations are the origin of most differences between individuals, including disease predisposition and drug therapy response.

To identify medically relevant variations, including single nucleotide polymorphisms (SNPs) millions of gene sequences must be analyzed in large numbers of individuals. This requires billions of tests.

Once the medical relevance of a particular variation has been determined, tests for that variation can then be performed on hundreds of millions of individuals.

This is driving demand for products and technologies that can accurately and cost-effectively analyze millions of genetic variations.

The market for genetic analysis products is estimated to be US$950 million, and is expected to grow to US$6.3 billion by 2010. That's over 20% annual growth. You can just imagine why the biotechnology industry will continue to boom.

No, we probably won't find a cure for cancer in the next few years. But the industry is on track to get many new drugs in the pipeline for FDA approval.

Just keep these simple maxims in mind when investing in the IPO market: Don't let your broker push you into something before you do the research – the harder they push, the more suspicious you should be. Be patient with hot IPOs. Wait a day or a week before buying. Stick with the known underwriters or well-established regional firms. They'll most likely receive more investment coverage. Look for a strong and experienced management team. And look for major products in the pipeline and a strong outlook for profits.

Expect market volatility to continue into 2001. But remember, when there's fear and "blood in the streets," new issues will debut lower and at more attractive valuations. The IPO Trader will alert you to any hot IPOs and the crucial aftermarket buys and sells.

GoEast,YoungMan!
FORECAST FOR EUROPE

by Michael Graser; Taipan Research Department, Eastern Europe Desk

Remember the heady days of Tokyo's Nikkei, right before the Japanese economic bubble burst?

Or how about Hong Kong in the early nineties – when speculation on the Chinese takeover sent the Hang Seng index soaring? How about China itself? Two million Chinese at the verge of buying burgers and Beemers! How about Russia? Malaysia? Indonesia?

Not a day went by, it seems, without U.S. investors being urged to get their piece of the international pie… stake a claim in emerging markets… clean up on global prosperity and free markets. As a *Taipan* member, you were at the cutting edge of each wave… positioning yourself for profits before the investment public came flooding in to push up stock prices.

And in most cases, you walked out with a handsome chunk of international profits.

But if you happen to be located in the United States… and about 75% of the *Taipan Group's* members are… you may have noticed it yourself: Over the past 3 years, foreign markets have all but disappeared from the radar screens of the financial media and mainstream investors alike.

Which doesn't mean there's no money to be made. Especially in some of the Eastern European countries now in the process of gentrifying themselves. Like Poland, Hungary and Czech Republic, which are the most interesting countries in Eastern Europe for profit-hungry investors.

Here's why. The economies of these countries are growing rapidly. The political situation is stable – especially compared to countries like Russia. And they have an economic carrot dangling right in front of their noses to provide the necessary forward momentum: the fantasy of becoming a member of the European Union (EU).

It had to be EU

The current doldrums of the Euro, the EU's artificial "single currency," are obscuring the fact that for new and future members of the Union, this "funny money" will bring a lot of economic advantages. It should help to boost investment across the economies of its members. A single currency will create a zone of economic stability and low inflation that will provide a stable framework in which companies can plan and invest.

The single currency complements Europe's Single Market. Reduction of transaction costs, less uncertainty about exchange rates and greater price transparency will lower costs and increase competition. The elimination of currency worries will have a direct impact on investment.

The increase in trade that should follow from a larger, more integrated and efficient market will also improve opportunities for investment.

State of the Union

Throughout the year 2000, the economies of the EU member countries developed very positively. The farther removed a country was from meeting the criteria required for full convergence – and the faster they moved towards them – the better its stock market developed. (See Italy, Spain and Portugal.)

Even if you don't believe in the EU – and there's plenty of Europeans who don't – there is more than one reason to be bullish: high growth, falling interest and inflation rates, stabilizing currencies, further privatization of state-owned enterprises, and a strong desire to attain the luxury the West already enjoys all provide great conditions for the European stock markets.

Some leading investment banks even believe Poland and Hungary will soon rank among the fastest growing markets in Europe.

Just compare the market capitalization of Poland (US$26.7 billion), Czech Republic (US$7.4 billion), and Hungary (US$14. billion) with a single U.S. blue chip like Microsoft (US$369 billion as I write this – but heck, the way the U.S. market has been going recently, by the time you read this, it may be either half that amount, or double!).

Just imagine: for the value of Microsoft you could buy all publicly traded companies in these three countries eight times over and still have enough money left to get tickets to a major league baseball game!

Many European investment bankers believe the market cap of these countries will reach the European level as soon they are members of the EU.

Let's have a closer look at what's going on in these countries.

HUNGARY

Nearly all the data coming out of Hungary is positive. Hungary's economic upswing gets more dynamic all the time. With real GDP growth of 6.8 % in the first quarter of 2000, Hungary is the fastest growing country in Eastern Europe.

The biggest support of the GDP is industrial production, which in Q1/2000 increased 21% over the previous year. Exports grew 31%, and the domestic selling was up 7%.

At the corporate level, Hungary now has close links to the EU (export share: 73%), and is thus benefiting strongly from the economic upturn in Euroland. Moreover, domestic demand – particularly investment demand – has also accelerated since the end of 1999.

The strength of Hungary's economy is based on determined reforms at the corporate level. Nearly all large companies were privatized by 1998, with foreign investors (mostly European) playing an important role. The subsequent restructuring brought significant progress in productivity. Nevertheless, average monthly wages only amount to around EUR 320. You can't buy a decent dinner for four for that amount in London, Paris, or Berlin, let alone hire a skilled laborer!

The OEVD, IMF and the EU Commission all forecast economic growth between 4.5 to 5% for 2001. With exports to Euroland growing and domestic demand accelerating, GDP growth could come in closer to 5.5%.

Of course, inflation is still quite high, mainly because of high oil and food prices. (And the recent weakness of the Euro has done nothing to cheapen imports, either!) We believe inflation will level at approximately 9.6% by the end of the year 2000. For 2001 we predict an inflation rate of 5.8%

Balance of payments

In Q1/2000, exports grew 17.5%, imports were up 15.2 %. Exports consist mainly of big-ticket industrial goods, such as cars, computers, and household appliances. Since imports (particularly of intermediate goods) are also accelerating, the foreign trade deficit is slowly widening, climbing to US$703 million (up US$81 million compared to Q1/1999).

Nevertheless, with lower interest payments and higher tourism and transport revenues, the current account deficit narrowed to US$350 million in Q1/2000 (US$600 million in Q1/1999.) The deficit in the balance of payments improved from US$538 to US$372 million.

For 2000 and 2001, we expect current account deficits of US$2.0 billion and US$2.4 billion, respectively. As in preceding years, the deficits will largely be financed by foreign direct investment (over US$18 billion since 1990).

Still, the deficit target for 2001 (only 3% of GDP) seems a bit ambitious. Hungary's government will increasingly have to promote regional development in the run-up to EU membership. Subsidies for small enterprises and spending on infrastructure improvements were already increased in the 2000 budget. Although the period for the changeover to a fully funded pension system was extended, high government subsidies are still necessary. Hungary's membership in NATO has led to greater military spending. At the same time, the possibility of spending cuts in other areas is less likely in view of the parliamentary elections slated for early 2002.

Exchange rates

Since January 2000, the forint has been pegged exclusively to the Euro (before it was tied to EUR/USD). It is devalued at a fixed rate within a fluctuation band of ±2.25%. The monthly devaluation rate has been 0.3% since April 2000; it will likely be reduced to 0.2% for the rest of 2000.

The currency will only be allowed to float when inflation falls below 5%, i.e., not before 2001. Limits on foreign exchange will probably not be abolished until that happens, as the narrow fluctuation margin would otherwise present considerable risks. Up to now, foreign investors are only allowed to buy government securities with a maturity of over a year.

Credit

Hungary has already made considerable progress in adapting to EU legal standards and seems to have a better chance than the other applicants of concluding the accession negotiations – which started in 1998 – by 2002. However, Budapest will likely require a transition period in the area of environmental standards.

Reforms in local administration and (for purely fiscal reasons) of the health system could also be stumbling blocks. We think that EU accession is hardly possible before 2004, but this is mainly due to the tardiness of reforms in the EU itself.

S&P raised Hungary's credit rating in February and Moody's followed suit in June. This is fully in line with our own assessment. Further promotion seems to be only a matter of time.

Outlook for the Hungarian stock market

Exchange and interest rates may react to some extent to crises in neighboring countries or to international trends; the stock market may even be affected. However, the positive outlook regarding EU accession will likely have a stabilizing effect.

At the moment, major factors driving the Hungarian equity market include: the NASDAQ and other established securities exchanges, international sentiment regarding emerging markets, Hungary's macroeconomic and interest rate development, actions of the Hungarian government, and, of course, the performance of the listed companies.

The Hungarian market will be affected by mixed factors through the remainder of 2000 and 2001. On the negative side, rising interest rates in developed markets could hurt global liquidity. If rates do rise in the U.S. and Western Europe, there could be fewer funds available for investing in emerging markets.

Hungary's fundamentals remain favorable. Nevertheless, its economic growth is largely fueled by the performance of multinational companies that are active in the county but have no presence on the BUX.

We believe that the country could be one of the first picks when international investors return in force to the Eastern Europe markets. Strong fundamentals would seem to moderate downside risks for Hungarian equities, and once the investment mood shifts the upside potential looks substantial.

Because of its stable framework, approaching membership in the EU, fast growing GDP and very well educated, eager and cheap manpower, the flow of capital will continue even after privatization.

Among the prime candidates for investment in Hungary are **Matav** (telecommunications) and **Egis** (pharma), as well as **Borsod** (chemicals). (A personal favorite of mine is **AHU Antenna Hungaria**, Hungary's budding mobile phone and multi-media concern.)

If you've followed James Passin's Euro-Internet plays in the past, you'll recognize Hungary's Web commerce leaders **Synergon** and **Uproar**.

POLAND

The Poles have had considerable success since their transition to the market economy. Today Poland is one of the most dynamic countries in Eastern Europe. At the moment the unemployment rate, which hovers in the low double-digit area, hinders full development of the domestic market. But the economy is growing.

Following a brief setback caused by the Russian crisis, the Polish economy is back on a high-growth path. Although GDP growth slowed to 1.5% in 1998, it grew again to 4.1% in 1999. The driving forces of growth were private consumption and investment.

After growing fast and furious at the beginning of 2000, GDP expansion slowed in the course of the year. But we still expect high average growth of 5% for 2000 when all is said and done. A major pillar of growth was industrial production (up 9.8% for the first 5 month of 2000) and retail trade (up 19.9%).

Even though Poland is benefiting only to a limited extent from the livelier economic activity in Euroland, Polish growth will likely accelerate to an average of 4.2% in 2001, owing to higher exports.

Foreign trade has become a big problem for the Polish economy, since important Eastern export markets contracted in the wake of the Russian crisis. The negative trade balance is at the root of the current account problems. Since the exports to Eastern Europe declined, the deficit has nearly doubled.

Under pressure from three sides (breakdown of sales markets in Eastern Europe, weak economy in Euroland, and high import demand), the deficit widened from 4.4% of GDP in 1998 to 7.6% in 1999 – and further to 8.3 % during the year 2000. For all of 2000, we look for the deficit to stabilize at the prior year's level of 7.6% of GDP because of higher export growth, which will improve the trade balance and thus the current account.

Financing the current account deficit and the redemption of foreign debt isn't causing any major problems at the moment. At 15%, Poland has an acceptable dept-to-service ratio. In addition, high official foreign exchange reserves (currently enough to cover about 6 months of imports) are available. The country is also benefiting from large-scale foreign direct investment (FDI).

In light of privatization projects for the current year totaling US$4.5 billion, FDI could come to a record US$7 billion, which would cover roughly 60% of the current account deficit (estimated at US$12 billion in 2000.)

In 2001, we expect the current account deficit to edge down to around 7.2% of GDP following a further rise in exports. The country's external payment obligations should not create any major difficulties in 2001, either. From 2002, Poland's financial position will be considerably tighter, with Paris Club debt that was rescheduled in the mid 1990s coming due. Also, FDI should decline, as the large privatization projects will have been completed. Finally, Poland will not yet have access to the more favorable credit and bond issuance terms it can expect upon EU accession.

Should the government fail to cope with the current account deficit, Poland could be faced with solvency problems in the medium term – particularly after late 2001 – as well as with a sharp correction in the exchange rate.

The trouble with the zloty

Although the Monetary Policy Council has pursued a tight policy since 1999 to curb growth of the monetary aggregates, inflation rose again in 2000 due to non-monetary supply-side factors such as high oil prices and bad harvests. The official target of 6.8% now seems unlikely. We guess that the year will close with an inflation rate of 10.1%

Large-scale inflation might cause investors to doubt not only the assumptions underlying many investment strategies, but also, more fundamentally, Poland's economic growth prospects.

But core inflation, a more reliable way of measuring domestic price developments (since it excludes volatile food and energy prices) is on a much lower level. In 2001 it will again be in the single digits. For 2001, *Taipan* expects an inflation rate of 6.7%.

But Poland has a lot going for itself these days. The considerable growth in GDP gives Poland a lead over other Eastern Europe countries. And – almost unnoticed by the mainstream media in the U.S. – the administration, the banking sector, and the legal system have become very progressive indeed.

Poland's central location between Eastern and Western Europe supports the export market, which is highly competitive thanks to very low wages (total average hourly compensation for manufacturing workers is US$1.07).

The economic forecast is positive, on condition that the government can reduce the deficit in the balance of payments without slowing down economic growth.

Another problem is the agriculture sector. It is huge, unproductive and on a low technological level. Large investments will be needed to bring this sector up to European standards. Structural changes will eliminate most of the smaller farmers. This could cause a lot of political problems.

The political situation is very tense to begin with. There are a lot of conflicts in the *Sejm*, the house of commons of the Polish parliament. These conflicts could slow down the necessary reforms. But the risk should not be overestimated, as the stock market does not tend to react to political turbulence.

The market

The new pension fund system permits investment in the stock market, supplying it with enough new money to allow market capitalization to grow at a constant clip. Despite an average P/E of 22.9 (compare that to Germany's 22.6 and Spain's 21.5), there are still some interesting investments. Good buys are the **Elektrim** conglomerate and **KGHM**, a natural resources company. **Agora** (media) also has strong bullish factors going for it… although it has nothing to do with the Taipan Group's publishing mother ship of Agora Inc., in Baltimore!

CZECH REPUBLIC

The Czech economy is on the road to recovery. Actual growth is robust for the first time since the economy began to pull out of recession in early 1999. The latest figures give reason to hope that the economy will converge with the EU, rather than fall further behind.

The country represents a market of over 10 million consumers, and it opens the door to another 100 million consumers throughout Central and Eastern Europe and about 400 million consumers throughout in the European Union. Czech wages remain at a fraction of Western European levels. The average monthly wage was US$361 at the end of 1999. The average hourly compensation for manufacturing workers is US$1.64. (The average American worker nowadays makes US$18.24 an hour.)

A 1999 survey conducted by the International Labor Organization revealed that the Czechs are among the hardest working people in the world, with over 90% of Czech male workers and over 80% of female workers working more than 40 hours per week. A typical Czech worker will put in 2,150 hours in 2000. This is nearly 1000 hours more than the German worker just across the border.

GDP grew by 4.4% in Q1/2000, mainly supported by exports to Western Europe (up 22.9%) and an increase in fixed capital investment (up 2%). This made up for weak consumer spending, a result of the high unemployment rate. In the course of the year, however, economic growth lost momentum. We will probably close the books on the year 2000 with a GDP growth of 2.5%.

Exports will remain the growth engine of the economy. According to a survey by the Czech statistical office, exports are expected to grow in the fields of machinery, transport equipment, chemicals and semi-finished products. Exports of minerals and fuels should also grow.

Foreign direct investment will once again strongly support GDP growth in 2001. Along with the country's sound economic fundamentals, special government programs are the basis for an outstanding investment climate. For instance, the government offers foreign investors special job-creation grants and corporate tax relief for up to 10 years. This should help to lure further capital into the country.

A lot of American companies have already recognized the great opportunities in the Czech Republic. Phillip Morris (US$420 million), Pepsi-Cola (US$200 million), Mars (US$80 million), Procter & Gamble (US$54 million), Boeing McDonnell Douglas (US$31 million) and Kimberly-Clark already have Czech subsidiaries.

As in 2000, domestic demand will remain moderate due to the high unemployment rate. For 2001, we predict an unemployment rate of about 10%. Over the next five years the unemployment rate should fall thanks to the alluring investment climate and the developing economy. For the year 2001, we predict GDP growth of 3.5%.

Consumer price inflation remains moderate. The inflation rate will level at about 4.1% by the end of 2000. Although it could begin growing again because of rising oil and food prices, the target for inflation (3.5 to 5.5%) set by the Czech Central Bank (CNB) can still be met. For the year 2001 the Czech ministry of finance predicts an inflation rate of 4.4%; in our opinion it could even go as low as 3.1%.

Less favorable than the GDP and the inflation rate is the balance of payments. As domestic demand grows, the imports could rise. If imports grow faster than the exports, we can expect the deficit to reach US$1.9 billion (3.3% of GDP) in the year 2001.

But this growing imbalance should not cause too much concern, since the deficit will probably be covered by foreign direct investments (forecast for 2001: US$3.2 billion).

On the other hand, the budget situation could present a serious problem.

The domestic budget deficit for the year 1999 was US$830 billion. Yet when taking into account the communal budgets, which showed a profit, the consolidated deficit is only 0.8% of GDP.

The gain came from the sale of shares in oil and gas providers. So this is only a temporary effect. Not considered in these figures are the losses incurred by Konsolidacni banka; however, gains from privatization are included.

According to the official data, the losses of the Konsolidacni banka amounted to about US$1 billion. This puts the domestic budget deficit at about 2% of GDP. Without considering the gains of privatization, the domestic budget would show a deficit of US$2.9 billion (or 5.4% of GDP) for the year 1999.

The political parties CSSD and ODS have developed a plan for gradual reduction of the domestic deficit. They target a deficit of CZK20 billion for the year 2001 and CZK 10 billion for the year 2002. In 2003 they intend to balance the domestic budget.

The problem is that the government has no control over local budgets, which could still create new losses. And the losses of the Konsolidacni banka have to be considered. A continuing high deficit could make it harder to achieve the criteria for joining the EU.

Nevertheless, for long-term investment it is the right time to go into the Czech market. We especially recommend financial services and the "new economy."

The Czech Republic spends more on information and communication technologies as a percentage of GDP than the average EU country. The upgrade and expansion of telecommunication networks and information technologies is currently the most visible aspect of the Czech economy.

The electronics industry in general is the most rapidly growing sector in the Czech economy, with more than 250 foreign firms active in the field. They range from global contract manufacturers to specialized component suppliers. Czech firms have strong subcontracting, supply & assembly capabilities.

The financial sector profits mostly from efforts to meet the EU convergence criteria and the general economic upturn.

My pick for the Czech market is **Ceske (**broadcasting).

Outlook

Eastern Europe will continue to struggle with the delayed effects of the Russian crisis. But these problems will soon be brought under control. A new crisis would have a less influence on these countries as they draw closer to the EU. Developments in the Czech Republic and especially the Hungarian export market are very favorable.

Psychological factors: Many investors still avoid the Eastern European markets. They are still too conservative to invest in these countries. And if they are aggressive enough, they still seem to prefer the highly volatile Russian market.

The idea of the EU has not yet been strong enough to provide much impetus to the market. The problem is that the Euro/US$ exchange rate is so unfavorable that at the moment few people are willing to bet on the Euro. But in my opinion there is little reason for concern. I believe there are only two reasons for such a weak exchange rate: the much higher interest rate in the U.S. and the psychological problem. No investor wants to risk buying Euros, because the rates could go down even further.

But even if you don't believe in the EU, the fundamentals of these Eastern European markets are good. And the time to buy is now!

Outlook for Latin America

Michael Riska and Jennifer Solomon

As a group, the Latin American economies picked up speed during the year 2000. Twelve or eighteen months ago, much of the continent was still floundering in the wake of the Brazilian currency devaluation. It looked like the 21st century was getting off to a pretty bad start. But now, Latin American growth is running at a steady 4% annually, inflation has been more or less stable, fiscal positions have strengthened and current account balances have improved. It's been a pretty sharp turnaround, especially where inflation is concerned, and gives testimony to a renewed commitment to creating sustained growth on the part of most Latin American countries. Leaders are embarking on cautious macroeconomic policy management programs, and have committed to structural reform for the long-term benefit of their respective countries.

That said, Latin America is still really a mixed bag. The overall numbers mask significant differences from country to country. The average growth rate is boosted by strong performances in Mexico, Chile and Brazil. Mexico's strong showing is rooted in consistent policies that were instituted during the 1994-95 currency crisis. Brazil and Chile have both instituted good economic policies as a reaction to Brazil's own currency crisis two years ago. These countries are expected to continue to grow above the overall rate. A number of large countries – Argentina, Colombia and Venezuela – show much weaker growth.

Got oil?

World trade is a big factor, and is expected to grow almost 8% in the region in 2001. As usual, much depends on the United States. As the principal industrialized trading partner for most Latin American nations, continued strong demand from the U.S. makes an important contribution to these economies. On the whole, Latin America has gained from recent developments in commodity prices, although the impact varies from country to country. For example, as energy prices go up it pays more to be an oil exporter than an oil importer. Copper and wheat prices are up about 25%, but coffee and corn prices are down. The overall effect has been a 5% improvement in Latin America's terms of trade.

Even though higher oil prices have a net positive effect on the region – oil exporters outnumber importers – a lot of countries would be negatively affected by higher import costs if oil prices continue to rise. Also, most would take a hit from the decline in world growth that would likely result from significant increases in energy costs. The unexpected rise in oil prices in 2000 fueled demands for trade protection and assistance programs in some Latin American countries.

Spare the rod, spoil the child

Still, Latin America as a whole is looking very solid these days. With a few exceptions, there's not much wrong that a little old-fashioned discipline can't cure. Here are some things to look for that will really sweeten the deal:

Labor markets need to be reformed to promote job creation. The whole

region is experiencing unemployment problems that can't be allowed to go unchecked. Liberalization of the markets would be better than simply increasing public sector employment to generate jobs.

Countries have to maintain and develop good relations with private creditors, to guard against preventable crises and deal better with the unavoidable ones.

Latin American countries must promote good governance. Gross political scandals and misplays like those seen in Argentina and Peru in 2000 cannot continue to be routine.

Financial institutions need to be strengthened. Governments must be held accountable for their spending habits through strong legislation, like Brazil's Fiscal Responsibility Law.

Trading systems should continue to be opened up, and protectionist measures should be avoided. Latin America is rich in resources and sensible trade policies are vital.

Ultimately, investors in Latin America need to look at the track records of individual countries. Some of them are looking more and more like tight ships; others are having trouble dragging themselves into the 21st century. There is no doubt that the region as a whole is headed for substantial growth, but that growth will be a result of the push and pull between countries that have their act together and those that don't. Here's a rundown of the major players.

Argentina: Mr. Magoo and his naughty children

Things looked so full of promise: President Fernando de la Rua took office at the beginning of 2000, proclaiming himself the antidote to the poisonous corruption running through the Argentine government's blood. His centrist Radical Civic Union (UCR) party allied with the left-wing Frepaso to defeat the Justicialist Party for the first time in ten years. Vice president Carlos "Chacho" Alvarez was hugely popular and seen as a man of character.

Ten months later, Chacho quit the job to protest a bribery scandal in the Senate, and "FDR" denied that anything was wrong at all. Interestingly enough, the bribes were paying for votes for one of the president's crucial labor reform bills.

Problem? What problem?

All of a sudden, knight-in-shining-armor Fernando de la Rua is either blind or corrupt, Carlos Alvarez is a martyr to his principles and the whole country has to reassess.

This on the heels of three years of economic stagnation; record numbers of citizens applying for visas to leave the country; unemployment over 15 percent. According to Alvarez, influence peddling is standing in the way of legislation that would fight poverty, high unemployment and other problems facing the country. Congress, says Chacho, is running amok like naughty teenagers, and Dad is too feeble to do anything about it.

Which is too bad, because otherwise Argentina has really been trying hard. They shored up their economy well enough in the nineties to withstand the Mexican and Brazilian currency crises without too much damage. GDP grew 5.5% in 1996, 8.1% in 1997 and 3.9% in 1998. They took on quite a bit of foreign debt, but have rescheduled it for the long term. By July 2000, industrial output was back on track and deflation trends had reversed, suggesting higher internal demand. Plus they've managed to

increase tax revenue by revamping collection practices. Overall, Argentina has been doing a fairly good job of convincing the world that it is different from other emerging market economies.

But if the president is denies that his government has problems while his best men jump ship, it can't be a good sign. It wasn't all that long ago that Argentine politics was dominated by demagogues, always looking over their shoulders to see who was staging the next coup. And while Argentina doesn't seem to be in immediate danger of slipping back to the bad old ways, there's no reason to believe that any good is going to come out of 2000's scandals.

More likely, president de la Rua will continue to do everything he can to preserve the illusion of stability within his government. A political rupture would have negative implications for approval of the 2001 budget and other legislation currently on the books. Also, senate elections are scheduled for 2001 and a schism in his alliance with the Frepaso party could put the just-defeated Perónistas back in power.

Argentina is a strong country, and a pretty well managed one in the last decade. But political turmoil will set them back, or at least prevent any forward motion. If nothing really terrible happens, Argentina could simply run in place for most of 2001 and start to make progress again toward the end of the year. Look for growth under 3%.

Brazil: Taking off the beer-goggles

Two years ago, Brazil was in a state of crisis. After five years of an economic stabilization plan instituted by the IMF, Brazil suddenly wiped out in the wake of the Asian and Russian currency crises. Investors started pulling out their dollars and the floating currency, the *real*, lost thirty percent of its value almost overnight. This, strangely, two months after the U.S., the IMF and the World Bank gave the country an aid package worth a little over US$41 billion to shore up its flagging economy. Other, more mysterious factors seemed to be at work.

Brazil surprised the world in that case largely because of a classic misread – the old "appearance versus reality" problem. The same thing that makes you go home with the wrong person when the party's over. Deceptively good-looking legislation designed to make the economy an efficient machine was all over the books. Unfortunately, none of it was really being enforced. Worst of all, the government was in a perpetual cycle of self-inflicted debt. The final year of an administration generally sparked a financial free-for-all, complete with pay raises, reckless spending, project launches and a total disregard for how it would all be paid for. After all, it's the next administration's problem, right?

The morning after

The currency crisis of late 1998 and early 1999 was a wake-up call for Brazil. The billions of dollars in loans that bailed them out have since been almost entirely paid off, and a new program of financial austerity was put in place. A great example of this was October 2000's Fiscal Responsibility Law, which officially put an end to the "Fire Sale" model for end-of-term administrations. Now, executive, legislative and judiciary branches all share responsibility for the way public funds are spent. This should help prevent the lack of accountability – and the overall fragility of public accounts at all levels of administration – that made the country so vulnerable to collapse after Asia and Russia went down the tubes.

Second quarter 2000 growth figures of 3.4% year-on-year showed Brazil in full recovery.

The country's ongoing privatization campaign, financial deregulation and changes in the social security system should enhance credibility and solvency in the future. US$76 billion in foreign investments, loans and financing entered the country between January and September 2000, further indicating confidence in Brazil's ability to grow. Wages and consumer optimism are rising and unemployment is falling.

The downside is that Brazil remains overly dependant on foreign resources. Its public debt, external debt service payments, and current account deficit all point to the need for caution. Also, the country needs to open up its oil sector, which is still firmly in the grips of state-owned Petrobrás.

But the forecasts are optimistic. A growth prediction of 4.5% for 2001 seems entirely reasonable, barring any external shocks, like a "hard landing" in the U.S. economy or continued high oil prices. You can take Brazil home with you, confident that it will still look good in the morning.

Chile: Just because you're paranoid doesn't mean they're out to get you

A strange sort of gloom fell over the Chilean business community in the second half of 2000. Strange because, at the time, the country was showing healthy economic growth. The energy sector, in particular, was doing well, as strong rains filled the rivers and allowed hydroelectric plants to generate enough juice to make up for 1999's drought-related electricity shortages. There were, of course, the usual specters of rising unemployment and pending labor legislation; but these factors were almost the norm in South American countries in 2000. The gloom, the lack of confidence, came as a result of a series of sudden changes designed make the government's economic strategy stronger and more active.

And why not? That's how it works, right? You tweak the formula when necessary. Chile's government, in coordination with the central bank, decided it would be a good idea to cut interest rates by half a point and confirm a 1% GDP surplus for the 2001 budget. They opened up the capital market by simplifying regulations and getting rid of the one-year lock-in period and capital gains tax for foreign investors. And they thought it'd be a nice touch to give lower- and middle-income families and businesses a series of tax breaks and cash handouts – to offset the high price of oil and transportation and get them spending money again like good consumers should. All very positive steps.

So why are you looking over your shoulder?

Instead of inspiring confidence, the sudden changes raised serious doubts about the Chilean economy's ability to generate sustainable growth. They confirmed what many had started to suspect: that in reality Chile was not speeding up, but was entering a period of deceleration. If the changes had been introduced gradually, the business community would have observed the slowdown soon enough and taken it as part of the natural economic cycle of peaks and valleys. Sound, well paced tweaks would have sent a soothing – and true – message that Chile's economy was slowing down a little, but was still headed for good times. Provided, of course, that the government could prove it was making sure the valleys never got too deep.

Instead, the drastic measures had conspiracy theorists reading specific messages of doom and gloom into each of the reforms. In reality, Chile was not in terrible trouble, but a psychology of disaster kicked in and all of a sudden each move seemed designed to hide the fact that something was terribly wrong. The central bank's decision to lower interest rates had no effect at all on the peso's decline, which managed to hit a record low on September 8. Opening up the capital markets looked like a desperate ploy to entice investment, which was experiencing a modest decline. As for handouts to the lower classes to spark consumption: Remember when you were a kid and wanted everything in the mall, but had no money? Wasn't the buck-and-a-half your mom gave you to get whatever you wanted really just a bribe to shut you up?

Go with the flow

In fact, Chile has a lot going for it. In many cases, the perceived negatives are balanced out by very real positives. Yes, investment is down. But growth is being propelled by exports, and a free-trade deal with Japan is in the works. Some weakness in mining and manufacturing is met by 27.4% growth in the electricity, gas and water sectors. The communications sector is benefiting nicely from healthy growth in Internet services. And the Chilean government's reform measures are sound, even if the speed with which they were enacted caused a collective flinch.

Mob mentality may ruin this one for the short term. As always, it will pay to stand somewhat apart from the herd. But time will pass, the government won't seem so spastic anymore and Chilean businessmen will regain confidence in their economy, because it's a good one. Not great, but good. The municipal election on October 29 reconfirmed voter confidence in the current administration, by largely favoring candidates of President Ricardo Lagos's socialist government.

Chile was expected to grow 6.8% in 2001. Even with the collective twitching and moaning, they should still be able to manage 5.8%, on the strength of sound economic policies and good fundamentals.

Colombia: Why can't they all just get along?

Citizens of Colombia have been warring among themselves for nearly four decades now, in the longest-running civil war in the history of Latin America. The battle rages between Marxist guerrillas, anti-communist paramilitary gangs, drug traffickers, and state security forces. Not my idea of a good time.

President Clinton visited Colombia in August to discuss a US$1.3 billion aid package with President Andres Pastrana. This proposal, rather unimaginatively dubbed "Plan Colombia," is funded by "emergency supplemental resources" and is the biggest aid package ever offered to a Latin American country. Plan Colombia is the result of American support for Colombia's efforts to eliminate illegal drugs, find peace, and develop its economy and democracy.

So what's in it for us? America has two goals in our relationship with Colombia. On the altruistic side, we want to help a neighboring country that is striving to create a democracy and to develop a civil society. More self-interestedly, we would benefit if we could collaborate with them to halt the flow of illegal narcotics from Colombian coca fields into American communities. That way, everyone would be happy. So that's the plan.

Domestic violence

Colombia faces a problem different from that of many other Latin American markets. It has the resources, structure, and overall potential to support a booming economy, but the chronic political unrest unravels progress faster than it appears. The country keeps taking baby steps toward joining the North American Free Trade Agreement (NAFTA), and its August 2000 inflation rate was the lowest Colombia had seen for 30 years. But investing hard-earned cash in this emerging market is just plain risky.

Foreign investors cite uneasiness and doubt as the main reason for lack of participation in the Colombian market. Colombia can't even come to terms with itself over a war that has dragged on for decades. There are obviously some fundamental disagreements beneath all of the fighting on which the citizens just can't see eye-to-eye. And few people want to entrust their money to such an unstable market.

In 2000, Colombia showed noticeable economic recovery, experiencing a 3.1% GDP growth in the first half of the year. This is not the progress that was intended; the target GDP growth rate for the year 2000 was 3.6%. The outlook for 2001 appears even worse, however, due to the wobbling domestic demand and ongoing political uncertainty. Colombia keeps edging toward domestic improvement, but until it actually gets there, the economy will remain shaky.

Colombia is facing a social and economic crisis that has resulted in high levels of unemployment and poverty and substandard health and education services. Right now this country screams instability, and it's too uncomfortable for many investors.

In the future, Colombian authorities are sure to press on with the privatization program and continue efforts to ease the serious social tensions that currently impede foreign investment. President Pastrana has professed his commitment to guarantee more favorable conditions for investors. But don't hold your breath. There's been too much turmoil for too long in Colombia. Reassurance? Security? I'll believe it when I see it.

Mexico: Just can't get enough

If you're looking to the Latin American market for a good investment for the coming year, look no further. Mexico's economy just keeps getting better. Lacking the bloodshed, military uprisings, and heavy turmoil of many fellow Latino countries, Mexico looks like a promising investment opportunity.

Making the grades

Mexico has a good track record. Over the last few years it has shown positive growth and increasing stability. As the government continues to privatize many economic areas and establish reform, Mexico remains at the top as one of the world's most open economies.

So how is Mexico turning so many heads in the international community? Change. Ten years ago the country conjured up images of dirt roads and one-room adobe houses, and now it earns a four-star rating. Mexico has transformed itself into a competitive society, offering an increasing number of jobs and substantial markets with more power and stability than ever before.

Mexico blends a large and expanding domestic market, a crossroads location, uninhibited access to a large export market, and a competitive, successful labor force to offer investors a complete, enticing package. These combined attributes have made Mexico

the third-ranked target for foreign direct investment among all developing nations.

It's as if the country had a first taste and couldn't get enough. With so many connections to markets in North and South America, and to the European Union and Israel in the near future, the Mexican economy knows few bounds. Already enjoying its access to the United States and Canadian markets through the North American Free Trade Agreement (NAFTA), the country continues to negotiate similar agreements with other countries in Central and South America.

Crazy like a fox

Current president-elect Vicente Fox has lofty plans for his country after his inauguration on December 1. With a long-term goal to expand NAFTA into a common market similar to the European Union and an overdose of optimism, this man might just be on to something. Recent visits to Europe support his claim that he wants to break Mexico's economic dependence on the United States, the destination for an overwhelming percent of the country's exports in 2000.

Mexico's electronics market looks to be the up-and-coming jackpot for foreign investors. In a nation experiencing a major upgrade in standard of living, the desire among young urban consumers for up-to-date electronic gadgets is rampant. Constantly exposed to American advertising, these citizens tend to spend a large percentage of their disposable income on products such as televisions, cellular phones, and stereos.

Although the recent increase in oil prices have raised concerns about the forecast for 2001, the basic outlook for Mexico remains favorable. Expect growth in Mexico to slow from 6.5% in 2000 to 4.8% in 2001, which would still produce a strong, favorable market. Over the past few years, Mexico has shown the global economy what it is really capable of, and it looks like things will only get better.

Peru: Just when things were looking up...

In the investment world, we need no reminders of how quickly an economy can change from promising and positive to grim and shaky. Peru is a just another example of this sad truth. Seeing what appeared to be a comeback from a year of slow GDP growth and a drop in foreign trade, it looked like the debt-stricken, politically shaken country might be back on track at the turn of the century. No such luck.

Peru has the potential to develop a vast, successful market if only it had more to work with. A major mining country, it leads South America in the production of gold, zinc, and lead and harbors an abundant pool of natural resources. Other prosperous industries include the telecommunications, electricity, and agricultural sectors. But before Peru can use these building blocks to create a desirable market, it must start at ground level and stabilize its currently fragmented government.

At the beginning of 2000, Peru had a new look and a much-needed boost in confidence. With inflation levels under control and continued privatization efforts, the nation worked to present its market as an appealing option in the global economy. But then a major political crisis extinguished any hope of reaching this year's deficit and growth targets.

A game of musical chairs

The tumultuous reelection of President Alberto Fujimori in May of 2000 resulted in

a politically divided nation and dramatically weakened investor confidence. As the year came to a close, Fujimori had chosen to resign, due in part to a rumored bribery scandal. Sending an abrupt letter of resignation from a hotel room in his ancestral country, Japan, Fujimori left his country without any clear successor.

The usual backup plan for situations like this was rendered impossible with this decision, since the next-in-lines also left their positions of authority. Peru's citizens were dumbfounded; some rejoiced while others wept. Regardless of personal preference, however, a new leader is needed to take over the reins of power in hopes of ending the current national uncertainty. Talk about a high turnover rate.

This sudden turmoil could leave the country in a stagnant, purgatorial state of political limbo for an indefinite amount of time. The coming year will be one of transition, with no notable financial activity other than filling the gap between one political program and the next. In the investment world, 2001 in Peru has been dubbed the "lost year."

All bets are off

It looks like Peru is in for a year of higher prices, increased unemployment, harsher recession, and more bankruptcies. Although economists once looked toward mid-2001 for a time of relief and stability, that comfort has been pushed back until at least 2002. The situation in Peru is jumbled and confusing, but one thing is for sure: things will get worse before they get better.

Investing in Peru's 2001 economy would be about as prudent as betting on college football this season. It's so unpredictable, you'd be better off sitting on the sidelines. Keep an eye out for any sudden surprises in the market, and in the meantime, postpone that preseason investment plan unless you know you've got a sure-fire pick.

Venezuela: When you have to take the bad with the good

Venezuela's economy is a two-sided coin; the economy looks promising, but the government is frightening. It's a tough call, but as long as the country remains stable, finances should remain in good shape. Though the economy is beginning to show signs of recovery from a very dismal 1999, even the strong increase in oil prices during the year 2000 couldn't really lift Venezuela's head above water. Hopefully a high growth rate in the manufacturing industry and a far-reaching public investment program will lower unemployment and speed the recovery process.

Venezuela plans to advertise its potential for profit and entice foreign investors by promoting the telecommunications industry, along with the gas, electric, construction, mining, and tourism sectors. The financial community is taking a new approach and collaborating with the government to promote private investment in the domestic economy.

First and foremost, Venezuela needs to radiate stability, a characteristic it has been lacking for quite some time now. Obviously, before you pour your money into foreign investments in any country, you have to make sure the nation is secure. As soon as it seemed that a firm foundation might finally be in the works, Venezuela's framework started wobbling again. Unfortunately, it looks as though the new president wants to stir

things up now that his country stands a fighting chance again.

High Fidelity

In October of 2000, Fidel Castro visited Venezuela for a five-day slumber party with President Hugo Chavez. During Castro's first state visit to the country in 40 years, the two leaders hosted a radio talk show, played baseball, and gushed over photos taken of the two of them. And they also signed a very controversial five-year oil pact. Under the treaty, Venezuela will provide oil assistance to Cuba under "favorable financial terms." This translates into Venezuela handing over 53,000 barrels of oil a day – an amount worth more than US$500 million a year – while Cuba pays by helping Venezuelan medical patients and improving tourism, sports, computer technology, and scientific research. Not exactly a fair trade, but hey, it's Castro we're talking about.

Opponents believe the pact was a bad move for Venezuela, a country that can't afford to play risky games. Although Venezuela has signed similar pacts with Central American and Caribbean nations, these don't threaten the economy the way a pact with Cuba might, especially considering how it could interfere with U.S. relations. Venezuela is the world's third greatest oil exporter, and Chavez's outright defiance of U.S. attempts to isolate Cuba will weaken connections between his country and its biggest oil market.

Promises, promises

Many are wondering what President Chavez is really up to. After leading an unsuccessful 1992 revolt, he was imprisoned for two years. Since his election in 1998, he has done away with the old Venezuela, a moderate Latin American nation with favorable ties to the United States. His refurbished country now lacks the traditional congress, supreme court, and two-party system that led Venezuela for 40 years. Although Chavez claims to be helping the citizens by taking the power from political parties and putting it back in the hands of the people, the populist leader is already distrusted by many.

Venezuela's private sector is quite disappointed with the buddy-buddy romp between Hugo and Fidel and the resulting economic pact, because it feels the money could be put to better, more immediate use. Rather than relying on flimsy promises from Cuba, the country could be using profits from its oil exports to produce more tangible results, like creating jobs and paying off billions of dollars of government debt. Chavez argues that his plan is to unearth political corruption and boost social spending. He defended the pact as a confirmation of his dedication to the improvement of developing nations. Anyone else smell trouble?

What's an investor to do?

Still, don't abandon all hope yet. Venezuela is sure to stay out of trouble as long as oil prices remain high. And as long as its leaders (with Castro's encouragement) don't write off the United States as a bunch of undeserving capitalist pigs. A study by Goldman Sachs in October of 2000 rated the Caracas Stock Exchange, Venezuela's major market, third in the world. It certainly boasts the best yield performance (14.5% growth), surpassed only by China and Canada.

This is a tough call. It's the devil on one shoulder, angel on the other dilemma. Which is the smarter choice? The economy looks good right now. Venezuela is rebounding from difficult times, and has set the sky as its limit for potential growth. You could invest and earn a lovely profit. But then there's that glorious friendship between the

world's most notorious communist dictator and a former military leader who led a failed coup less than ten years ago. Not to mention the anger and suspicion of 20 million poverty-stricken Venezuelans, who fear that this sudden man-to-man bond will turn into a country-to-country alliance. It's pretty unstable, and you could come out empty-handed.

My advice? Use your best judgment. Invest in that great telecommunications stock with our Venezuelan friends and neighbors, but be ready to sell off at the first sign of political turmoil. If all goes well and no unexpected disturbances arise, expect high growth and continuing economic progress.

The Internet Goes Mainstream

by J. K. Riggin

First a brief nod to the rest of the bandwagon. As it turned out, the horror of Y2K had nothing to do with double-zero computer crashes and everything to do with a strong dose of swift and tough love for the Internet sector. It seems net income and profitability still matter, and the unchecked optimism of one dot-com IPO after another finally gave way to the reality that we are still in the early days of the Internet's impact on mainstream business.

From the top down, the valuations of pure Internet plays crashed into the ceiling and came tumbling back to earth throughout the early spring. King of the portal hill **Yahoo (YHOO:NASDAQ)** at first gave back half of its obscene market capitalization of over US$100 billion, and now rests at only 22% of its high – amid concerns of its advertiser base that still includes numerous and strained dot-coms. **eBay (EBAY:NASDAQ)** spiked in the spring as it continued to deliver profits while its Web brethren pumped red ink. But even eBay fans wonder how much hypergrowth lies ahead for the Web's number one auction site; the company's market cap is now 40% off from its inflated 52-week high. Despite the roll-back, however, both stocks continue to find favor in lofty P/E ratios: Yahoo is holding steady at 122 and eBay at 467.

The market was far less kind to consumer e-commerce companies. **Amazon.com (AMZN:NASDAQ)** continued to lose money as it maintained its high wire act as the leading superstore on the Web. But the perception of what it means to be the Web's leading e-commerce destination has changed. Pull back the curtain, and you begin to see a business that is perhaps not as revolutionary as *Time's* "Man of the Year" hype would have you think. Forces such as seasonal buying cycles, inventory headaches and cutthroat price battles exist on the Web, just as they do in the shopping malls and big box stores. And though it may be less expensive for Amazon.com to serve a customer, it may get more costly for the company to attract customers as the leading traditional retailers soup up their own Web sites and pummel their existing customers with online specials. Thus Amazon.com finds its market cap at barely 30% of its 52-week high, with no firm date by which profitability will be achieved.

Worst off among the high-profile dot-coms is **Priceline.com (PCLN:NASDAQ)**, the Web site that created the innovation (or false expectation, depending on how you look at it) that customers can name their own prices for everything from airline tickets to hotel rooms to groceries to gasoline. The problem is that the company has no control over its inventory. Despite the appealing fact that Priceline has provided airline companies, hoteliers, grocery stores and oil companies with a wonderfully recognizable way to dispose of excess inventory, there are no real barriers to entry – aside from a head start in brand awareness – to prevent the same companies from doing it themselves. Which is exactly what a group of airlines, including **United Airlines (:NYSE)**, **American Airlines (:NYSE)**, and **Continental Airlines (:NYSE)**, are doing through their own recently

launched Web site, **Hotwire.com**. Consequently, Priceline has dropped out of sight and is currently trading at a little less than 6% of its high.

Go through the roll call of similar e-commerce Web sites seeking to sell goods over the Web and the song remains the same. In their haste to achieve "first-mover advantage," many of these companies wildly overspent on marketing and often encountered higher-than-anticipated costs in Web development and customer service. The results have included layoffs, fire sale mergers, acquisitions, and, in some cases, bankruptcy.

Growing within

But just as the wild run-up of Internet valuations exceeded underlying and intrinsic value, the drop-off in the sector – especially among the highly visible consumer e-commerce Web sites – overstates the case. The truth of the matter is that there are plenty of Internet companies that are still in business and continuing to grow revenues at impressive rates. The domestic and global markets of Internet users continue to grow and spend money on the Web. Businesses large and small continue to find new ways to integrate the Web into all facets of operations to cut costs, operate more efficiently, and achieve strategic advantage.

Still, we cannot escape the fact that, within the market of new Internet users, the era of hypergrowth is nearing an end. With about half of the country coming online over the past four years, getting the remaining 50% online requires more than just translating the benefits of Internet usage to those who have resisted it so far. The biggest story that we won't hear a lot about in 2001 will be the bridging of the digital divide, and it won't have a blessed thing to do with some government program.

Although computer literacy and access to the Internet among minorities still lags behind that of whites (blacks and Latinos are 40% less likely than white Americans to have access to computers, according to a study put out last summer by the U.S. Commerce Department), a new survey by PricewaterhouseCoopers indicates that 29% of all Latino shoppers and 23% of black shoppers are now online, and they're shopping on the Internet. The study found that 30% of these "inner city e-shoppers" bought products from online sites over a 12-month period. For the general population, this number was just 27%. While this differential may reflect limited availability of convenient retail outlets in many urban neighborhoods, it also suggests that the most significant growth among online viewing and shopping will be from there.

All of which means that consumer Internet activity will continue to become more mainstream through 2001. This will significantly boost volume, but will also create an environment that is even more sensitive to ease-of-use, customer service and reliability. Despite the intellectual appeal of innovative pricing techniques that are unique to the Web, such schemes have a way of turning away customers who are simply seeking the easiest and fastest way to purchase the goods they want and need. More importantly, now that the rewards are higher, the integration of the Web into traditional consumer and business distribution, communication and retail channels is bound to go forward.

Beyond the revolution

Look past the impact of paper money and you'll see that over time, the Internet doesn't displace, it brings together. Just as it doesn't exclude users, it also doesn't exclude existing businesses. Despite the war cries of the revolution, the past two years have proven

that the many businesses that were supposed to be obliterated by the Internet were in fact strengthened by it. So, looking forward, here are a variety of lessons and underlying themes that will guide this mainstreaming phase of the Internet build-out.

First, the gas tank is nowhere near being empty. Venture capital continues to fuel Internet entrepreneurs. Although venture capital spending is not growing as rapidly as in the recent past, the amount of money raised and invested in 2000 marks an all-time record. Venture capital firms invested more than US$60 billion through the third quarter of 2000, up from US$33.2 billion in the same period last year, according to Venture Economics.

Add to that the growing indications that the bleeding has stopped among Internet stocks. As the fall earnings season comes to a close, most Internet companies seem to have beaten estimates (unlike a handful of computer manufacturers). Another round of e-commerce players, **FTD.com (EFTD:NASDAQ)**, **Homestore.com (HOMS:NASDAQ)**, and **FragranceNet (FRGN:OTC:BB)**, crossed the threshold of profitability. Yes, there's real business in there somewhere. Where we stressed out over profits in 2000, we'll be evaluating their relative strengths in 2001.

And e-commerce is by no means dead. Sure, the competition is never more than a click away; and yes, building Web sites (or building practically anything, for that matter) can get obscenely expensive if you don't have a clear idea what you're doing. But cast aside the trendy hype and criticism. Shopping on the Web at the very least offers a convenient and valuable alternative to traditional venues. The obvious challenge here is for online stores to meet the same operational challenges faced by traditional retailers. Sure, there will continue to be losers, but don't overlook the fact that there will be winners, too. FragranceNet and FTD.com are just two of the companies offering a glimpse of how a tight-fisted and rational approach to e-commerce can result in profits.

But some of the concepts have become as trendy as the lingo. "First-mover advantage" is a description of a very fortunate set of circumstances, *not* a revolutionary business axiom enabled by the rapid deployment of technology. The concept is burdened by an assumption that real people actually live in the same "Internet time" occupied by the dreamers and developers of so much of this very real technology. Everyone is learning that, while Internet technology can enable you to distribute products more rapidly, it enables customers to discover and purchase your competitor's product just as fast.

Therefore, let no Web site *and no Internet* be an island. Remember the basic beauty of hypertext: the hyperlink, the ability to reference anything from your Web site. Reading type and viewing images on a computer screen is nothing new. We got accustomed to that back in the 1980s. The magic is in the sharing. It's not about displacement… the Internet will continue to link with other media. Web and print content will get together to bail each other out. Witness the **Primedia (PRM:NYSE)** acquisition of **About.com (BOUT:NASDAQ)**. Watch portals go offline to minimize their exposure to dot-com advertisers and maximize the value of their traffic. Yahoo has recently been signing major traditional advertisers like Barnes & Noble (BKS), Neiman Marcus and Pepsi for its interactive marketing services. Likewise, there will be more online companies going offline to acquire and retain customers. Earlier this year, **E-Trade (EGRP:NASDAQ)** acquired a network of 8,500 ATMs in 48 states to serve its banking customers. By autumn, the company had launched a pilot walk-in facility in a Target store.

Improvement plays

All integration and confluence aside, however, the hottest pure Internet-related prospects for 2001 will remain those companies that make the Internet work better. Three specific areas have emerged in 2000 that have tremendous potential for continued growth: content distribution, Web enablers and wireless Internet.

Last year, the content distribution market was just getting started as **Sandpiper Networks** and **Akamai** made their widely acclaimed performance and financial debuts. These companies help big Internet publishers distribute their content across the net to dramatically increase performance. Sandpiper was acquired by Digital Island and Akamai had a huge IPO. According to the HTRC Group, the content distribution space will grow from US$266 million in revenue in 2000 to an estimated US$1.5 billion by 2002. This is a rapidly changing, technology-fueled market that is constantly grabbing for the next big thing. That could well turn out to be satellite-based data content distribution, which is the specialty of a company called **Cidera** that uses satellite technology to help ISPs transmit content down to their POPs throughout the country. Cidera filed for an IPO earlier this year, then pulled the deal; it continues to plow forward with the help of investors, including New Enterprise Associates, Intel, Dell, GE Equity, PSINet, and Worldcom.

You could call them consultants, developers, content syndicators, software companies, or even geeks – you name it, they all share one thing in common. These companies help make Web sites better. Let's call them "enablers". A consulting firm such as **Mainspring (MSPR:NASDAQ)** can help you develop the strategy for a successful Web site. Its customers include most of the Fortune 500. Companies like **Viant (VIAN:NASDAQ)**, **Agency.com (ACOM:NASDAQ)**, and **ModemMedia (MMPT:NASDAQ)** can build your Web site, whether it's a catalog with more than a million auto parts, a corporate intranet for insurance salespeople, or the flashy Web brochure for a national tourist association. These companies have had a tough third quarter, as many of their IPO-funded customers have had to pull the plug on extravagant Web development plans. But as the Web goes mainstream, the mainstream companies will turn to the experts, the companies that are getting the job done.

And then don't forget the growing number of existing Web sites that need to keep serving up an ever-changing menu of content. That's where companies like Screaming Media **(SCRM:NASDAQ)**, **Yellowbrix** (IPO pending), and **iSyndicate** (IPO pending) enter the picture. These companies basically buy data feeds (news, stock quotes, weather, etc.) from brand name content publishers, then package and resell the feed to small- and mid-sized Web sites.

Screaming Media may have gone public too early. Watch the iSyndicate and Yellowbrix IPOs – iSyndicate for its breadth of customers and content, and Yellowbrix for the way it integrates contextual e-commerce opportunities into its syndicated content offerings. Most significantly in this enabler space, watch the **Napster/Bertelsmann** deal as it unfolds. Once Bertelsmann figures out how to squeeze a fee out of the peer-to-peer networking arena, the Web-content afterburners will really start to kick in.

Finally, there is the wireless Internet. Though the whole area has been maligned as much as it has been hyped over the past year, the market for wireless Internet services continues to trail the incredible growth of wireless telephone service. Stock prices for **Nokia (NOK:NYSE)**, **Aether Systems (AETH:NASDAQ)**, **Phone.com**

(PHCM:NASDAQ), and **XO Communications (XOXO:NASDAQ)** all fell off their hype-driven climbs in the spring of 2000. But all of these companies continue to maintain solid market caps. Where's the opportunity?

Watch **TeleCommunications Systems (TSYS:NASDAQ)** as a growing mover in the wireless space through the first part of 2001. The company develops network applications that deliver Internet content and short messages to a variety of wireless devices. The company recently cut a marketing deal with Compaq to offer TCS's Wireless Internet Gateway Application Suite and Prepaid Wireless products as turnkey solutions on Compaq servers. The company's first earnings announcement since its late summer 2000 IPO also made a splash, with 31% sequential quarterly revenue growth and an estimate-beating loss of only US$0.10 per share. Currently trading at around US$15 a share, TCS's rapid growth and increased exposure will drive that price up to US$50 by the summer of 2001.

Tired, but true

It's funny – if you could go back 10, 20, even 50 years and talk to entrepreneurs about getting started, you would hear things like building value by taking advantage of efficiencies in new ways, creating proprietary processes, or simply finding new ways of doing business. All of these things still apply to the Internet. The Web provides efficiency and convenience in approximating real-world transactions. And the Web is the best place to most rapidly enter new markets and execute new business ideas.

The notion that the Internet upheaval may not be all that unique compared to our previous bouts with automobiles, televisions and computers, among others, shouldn't put a damper on enthusiasm. Technology will continue to crash the gates of industries ripe for disruption. The Internet just happens to be our mode of the moment, and it continues to offer us opportunities to exploit these disruptions.

Getting Rich and Staying Rich in 2001

SEVEN SECRETS THAT ARE STARING YOU IN THE FACE

by Charlie Wolpoff

Well, the election came out just as I predicted.

The Libertarian candidate lost.

So my unsurpassed forecasting record remains intact. In fact, as a prognosticator, I am infallible.

Of course, that's because I specialize in can't-miss predictions.

Who would win the World Series, the Mets or the Yankees? I, of course, chose the New York team. The New York Times endorses Hillary? I predicted that, too.

And who could forget my uncanny announcement that in 2000, Janet Reno and Bill Gates would not announce their engagement?

Now, at first blush, a crystal ball that displays only the sure things in life might seem like a rather useless piece of glass. But when the issue is protecting your wealth, identifying the verities in life is essential.

Too many unwitting souls will spend all of their time trying to decipher the indecipherable. By attempting to figure out whether the next interest rate move will be up or down, all the while ignoring the certainties, they'll be setting themselves up for unpleasant surprises.

Meanwhile, by listing the most important things that are sure to happen next year, you can formulate a plan of action to guide you comfortably through the next twelve months and beyond.

These predictions I'm about to hand you will help you hold on to your stock gains, protect your wealth, and preserve your money – so you can use it another day for food, tuition, and crucial stock picks to boost your wealth even more.

Here, then, is a list of seven sure things for the coming year, and the actions you can take in response to them.

1. The stock market will go up next year… and down… and sideways. In short, it will be volatile and ultimately unpredictable.

What, am I some kind of wise guy? No, I'm merely pointing out that volatility in the stock market is assured, so you should act accordingly. Sounds simple, but too many people ignore this reality.

So what can be done about it? Well, for one thing, don't let the volatility hold you hostage.

Instead, take time to organize your investment portfolio as follows:

Charles R. Wolpoff has served as both a tax lawyer and journalist. He is using both those capacities as resident tax and wealth-building expert for Taipan and Penny Stock Fortunes. He is also the author of The State Tax Report and a forthcoming book on scam defense.

He has written on tax matters for legal publisher Tax Management, a subsidiary of the Bureau of National Affairs Inc. in Washington D.C.

In addition, he reported on legislative matters for the Congressional Quarterly and the Capital News Service, and on business for the Baltimore Business Journal.

Charlie, a member of the Maryland Bar since 1982, has a B.A. from Duke University, a Masters in Journalism from the University of Maryland, a J.D. from Vanderbilt University and an LL.M in tax from Georgetown University.

- Determine the percentage you will use to hunt the big moneymakers, those home-run stocks that will end up paying for your vacation house at the beach. Be sure to use analysts you trust, such as, for example, our illustrious *Taipan* crew.
- Devote another portion to long-term investing. Review these results every quarter, but don't go nuts with every dip and climb in the market.
- Place another part of your investment funds in income-producing assets. As you get older, this income portion of your portfolio should grow to produce lasting benefits.
- If you know now that you will need to use investment money during the year, withdraw that from the market as soon as possible. For example, if you will need US$20,000 by September of 2001 to pay for your child's freshman year of college, don't risk having to pull it out of the market during an August slump.
- Once you have your portfolio arranged the way you want it, monitor your investments closely. Don't let them get out of balance. And always keep track of your goals.
- No matter what the market does, you can help yourself by minimizing investment-related expenses, such as taxes. For example, offset investment gains with losses you have incurred. We've talked about how to do this in previous articles, and we'll continue to give you investment tax tips in the future.

And the next time Alan Greenspan sneezes (which, I predict, will likely happen at least once in 2001), you can offer him a Kleenex. But you won't have to run for the hills. Just remind yourself that the resulting market convulsion will sort itself out eventually.

2. Some reporter for some paper will lead off at least one article on taxes with the hideously overused cliché that "the only sure things in life are death and taxes."

It seems this phrase is the only thing some people in the media know about taxes. Clearly, you can't depend on Peter Jennings for your tax suggestions. So you have to educate yourself and stay on top of your taxes all year long. Don't put off thinking about it until the end of the year and tax time.

The fact of the matter is, most people overpay their taxes. That's because they just don't give the matter enough attention.

Don't make that mistake. Stalk your tax return like it's your favorite web site; return to it again and again, looking for more ways to chop the government's "share" of your wealth. For example, determine whether your estimated taxes and withholdings are too large (thereby giving the tax collectors an interest-free loan) or too small (running the risk of incurring outrageous penalties and interest); contribute appreciated stock to charity; determine the credits you may be eligible for; maximize your retirement plan contributions.

3. At least once during 2001 the IRS will whine that it doesn't have enough funds.

Eventually, Congress is going to cave to the constant lobbying by the tax police and the mainstream media who claim that the IRS isn't keeping enough money for itself. So don't count on audits remaining under 1% forever.

Make sure you keep good records so you can tell the IRS to go audit itself when it comes after you. Yes, the odds of being audited have gone down in recent years. But (as I predicted) the pliable media has played up the fact that the IRS budget is too low. So look for Congress to boost the budget so the IRS can increase the number of audits.

How should you respond when Congress does this? Well, as long as you maintain solid records – while claiming all the tax breaks you are entitled to – you have nothing to worry about. The four words the IRS dreads most are "I can prove it."

4. At both the federal and state level, arguments will be made for a tax increase and against a tax cut, by claiming the cut would barely be enough to buy you some trivial consumer product.

During this last campaign, you heard Al Gore criticize Dubya's tax cut for being, at one and the same time, too great and too little. It would give too much to the rich, but your share would not even be enough for you to buy a Diet Coke. (Or was it Dr. Pepper? Or Sprite? Or Shasta? I can't remember.) Meanwhile, a state official recently argued against a tax cut by claiming that it was so small, it wouldn't even pay for a pair of sneakers.

If the politicians get their way, we'll see a lot of thirsty, barefoot taxpayers running around.

This is an old trick. It's financial death by a thousand taxes. Like being nibbled to death by ducks.

Don't trust the politicos. You're being taxed more than you think. Monitor your tax burden closely, including the taxes you pay at the grocery store, on your house, for your telephone, your electricity, and even your newsletters.

In future forums, I'll discuss how to cut some of these taxes. But for now, it's important to at least be aware of them and not to fall for the political Diet Coke trick.

5. The Federal Trade Commission will catch a few scamsters who stripped some suckers of lots of money.

This prediction brings us to another cliché: If it sounds too good to be true, it probably is. There are all sorts of crooks out there coming up with new angles for stealing your money. You always have to be on guard.

There are many types of scams. Investment scams, business scams, and charity scams are a few of the worst ones.

Don't wait until the next "60 Minutes" exposé on some poor schlump of a con man who's had the bad luck to run into Morley Safer; act now.

There are some general principles you can use to make sure you're not taken for a ride in 2001, 2002, or ever.

Here are a few tips for avoiding scams. Look for more in a forthcoming book on this subject.

- Be smart – and act smart. Know your stuff. If a thief sees a Club on a steering wheel, he's more likely to rip off another car. Similarly, if a con man senses that you know what he's up to, he'll likely vanish as fast as he appeared. Crooks, whether car thieves or sleek rip-off artists, prefer the easy prey.
- Knowing your stuff includes knowing your rights under the law. No, we're not suggesting that everyone go to law school; that's the last thing this world needs – a billion more lawyers. But you can understand some of the basic laws designed to protect you from scamsters without becoming a member of the bar. So the next time someone comes to your door and tries to sell you something, be aware that, under the law, you have a three-day cooling off period during which you can cancel the purchase. Even if you've signed a contract. And the seller is required to tell you this.
- You should understand the games scamsters play, and stay on top of the latest twists and turns in the rip-off business.
- Always get it in writing. As the saying goes, oral promises aren't worth the paper they're written on.

This is good advice for life in general, not just for avoiding scams. Even when you are dealing with someone who is well intentioned, memories can become, shall we say… selective.

- And when you get something in writing, read it. The whole thing. Particularly the fine print.

"The large print giveth and the small print taketh away." It's that little type buried at the bottom of the page that often stings you. Frequently, the smallest words on the page are there for one reason only: to keep the schemer from having to pay a fine or go to jail. That is, the fine print is intended to make things legal, while still leaving open the distinct possibility that you'll fall for the scam.

Now, in many cases, if the disclaimers are not provided in conspicuous type and clear language, the schemer is not protected. Regardless, very often the warning signs are there on paper for all to see, if they just bothered to read it.

- Finally, we come to one of the most unsettling thoughts of all. No matter how many friends or relatives you're blessed with, no matter how many confidences and good times you've shared with old college roommates, no matter how much you trust your advisers… when it comes to money, we're all on our own.

Admit it. When you find out that you have more money than your friend does, you feel a sense of guilty pleasure. And when you discover that your favorite cousin could actually buy and sell you in a heartbeat, you suffer irrational pangs of jealousy.

Your brother-in-law would give you the shirt off his back, but when it comes to cold, hard cash, he'll leave you out in the rain, naked.

This is not as awful as it seems. It's simply human nature. The truth is, no one is going to look out for your financial well-being as carefully as you will. That's because no one cares as much about your wealth as you do.

So act accordingly. Remember that any transaction involving your money should be treated like business… wisely, carefully, and unemotionally.

When it comes to protecting yourself from fraud, there are all sorts of resources to choose from. But your first and most important line of defense will always be… yourself and your own good judgment.

6. Business mergers will continue, and layoffs will be a fact of life.

Job security just doesn't exist in the real world. That's why you should always have a Plan B. Such as turning your hobby into a business and eventually joining the ranks of the self-employed.

Needs are going unmet and customers keep searching for better service. This scenario creates plenty of opportunities for new businesses. And one of those new businesses could be yours.

By operating your own business, you'll gain more control over your life, enjoy more tax breaks, and be rewarded directly for your efforts, instead of relying on a boss to decide how much you're worth.

And your life will be in your own hands.

7. Finally… the unceasing trend toward totalitarianism will continue.

Whoa. Where'd this come from? Weren't we talking about sure things here? What's so smackdown certain about another Mao, Hitler, or Stalin taking over?

Well, thankfully our freedoms haven't yet been folded, packed and shipped off to oblivion…

But some of the signs are ominous.

For example, tax authorities are doing everything they can to centralize power. Not only are states in this country cooperating to try to close all the exits for taxpayers. The U.S. is also using its muscle to force so-called "tax havens" to step in line with the IRS and the taxaholics.

And to catch tax evaders, authorities pull out all the stops, even if that means trampling over the privacy rights of innocent people. Just this past month, the IRS received access to thousands of MasterCard and American Express credit card accounts held by U.S. taxpayers in offshore banks.

In fact, the need to go after criminals is the FBI's excuse for coming up with its Internet snooping program, "Carnivore," which, if the authorities have their way, will soon be spying on your emails.

On and on it goes, this contempt for individual privacy.

It's a thirst for power, a hand in your wallet, and the potential to know every little thing there is to know about you.

Sounds like a recipe for tyranny.

We're not there yet. But if we're not careful, we'll be there soon. All it takes is a national emergency, and enough conscienceless would-be Napoleons in office, to bring the freedom party that George Washington started with a little help from his friends to an ignominious end.

In this event, you will not be able to choose which doctor to visit. You won't be able to purchase a house without government approval. States will decide who can live in what area.

The potential for losing control over your life is greater than it has been in the past. Our globe has shrunk.

The push to tax the Internet continues. And taxation would require disclosure of all sorts of personal information.

Medical privacy is a thing of the past.

Tax laws are growing more complex, and with this complexity comes greater discretionary power of the courts and government to interpret those laws as they see fit. This opens even more chances for abuse of power.

Perhaps worst of all, more and more people are starting to expect the government to mother them and provide them with all the necessities of life.

Is freedom an endangered species?

That's up to you.

Your privacy and freedom are your biggest assets. Guard them well.

Lockinginprofitsas marketsgowild

WHY YOU SHOULD RESOLUTELY APPLY A 20% TRAILING STOP STRATEGY

by Michael Graser

Stocks go up. And stocks go down. But these days, it seems that the only movement you see in the markets is excessive. Where stocks used to go up, they now soar overnight. And where they used to "correct"... comes the plunge.

That's what makes it so hard to optimize your profits. For years, *Taipan's* recommendation has been to set and observe a trailing stop.

A trailing stop is really quite simple: If shares go down 20% below your purchase price, or fall 20% below the stock's high, you bite the bullet and sell... keeping your potential loss to 20%. Ask your broker whether he can place a selling order with a trailing-stop for you. If he doesn't offer this service (and few discount or online brokers do), watch the prices of your shares carefully and react fast if the price touches the -20% limit. Of course, depending on your threshold for pain the limit can be lower, but we don't necessarily recommend it.

This strategy is especially potent in handling the ups and downs of Internet and "New Economy" stocks. Here's an example. We recommended MP3.com in May. At that time, the share was priced at US$9.96. The price rose to US$19.19, a gain of 92.50 %.

If you didn`t watch the price change you might still hold this share. With MP3.com now priced at US$8.56, you would have lost 14.11%. If you used trailing stops you would automatically have sold MP3.com at no less than US$15.35, locking in a respectable 54% gain.

NICARAGUA EXPEDITION

MARCH 3 THROUGH 9, 2001

WITH AN ADDITIONAL CARIBBEAN EXCURSION TO THE UNDISCOVERED CORN ISLANDS, MARCH 9 THROUGH 12, 2001

Right now, you can make the smartest Pacific-coast investment of the decade. If you missed out in Costa Rica, don't make the same mistake again. Nicaragua is on the verge of a boom… and you can be right there to profit from it! We've made it easy for you… simply join us in Nicaragua this March to learn exactly how you can take advantage of one of the best investment opportunities we've seen in years. You'll meet all the contacts you need to know – attorneys, business consultants, real-estate agents, local American expatriates, and more.

Let's do a bit of comparison shopping. For a 1-bedroom, 1-bath cracker-box home in Malibu you'll pay US$244,500. For a larger place – 4 bedrooms with a gourmet kitchen and an artist's studio – you'll fork over at least US$1.6 million. Yet for less than one-tenth that amount, you can buy a half-acre of stunning coastline in Nicaragua on that same dramatic Pacific coast. Even more, you can build a spectacular home complete with handmade tiles and mahogany woodwork, perched atop a secluded shore that looks like California's did 100 years ago. All for less than one-tenth the price you'd pay up North.

And Nicaragua is not simply a bargain in comparison to expensive California. Prices here are thousands less than you'd pay for comparable, often less desirable properties in many neighboring countries.

Take Costa Rica, for example: In the early 1980s, it was *the* place to go for affordable coastal property. Yet today, in the community of Tamarindo, for instance, a quarter-acre beachfront lot sells for US$150,000. That same lot in Nicaragua, not 100 miles away – and on the same body of water – will cost you US$30,000 to US$60,000.

Why such an increase in value? That's easy: Word got out. People came… they saw… they bought. Pretty soon, this "undiscovered" retreat in Costa Rica became a booming travel destination, and property values kept pace with the increase in the number of visitors.

Word is getting out about Nicaragua, too. And that's why now is such a good time to invest. In the last two years, *U.S. News and World Report* cited Nicaragua as an affordable retirement destination, *The New York Times* explained that Nicaragua was where the people who tired of Costa Rica's high prices were heading… and *USA Today* reported that same trend. The fact remains: Nicaragua is peaceful, democratic… and undeniably booming.

While it's true that prices are already on the rise… you're not too late to take advantage of some spectacular bargains. For as little as US$20,000, for example, you can own a lot in a secluded enclave overlooking a fine-sand beach with breathtaking sunset views over the ocean.

Whether you're looking for a place to retire full time, invest in beachfront property and build a home to come to a few weeks – or months – a year, start a business, or simply buy property you'll hold now and sell in a few years, Nicaragua has something to offer. And that's why we've invited you to join us there this March: we simply don't want you to miss out.

And while we're in Nicaragua, we'll not only introduce you to the best Pacific-coast opportunities, you'll also tour elegant colonial homes for sale in lovely Granada, islands on offer in Lake Nicaragua, and, if you're feeling adventuresome… bargain-basement beachfront property going for US$30,000 an acre in the tropical, undiscovered Caribbean Corn Islands.

What's more, you'll have a chance to meet the friendly and hospitable people of Nicaragua. All the American expatriates we know there tell us the same story: Nicaraguans are kind and eager to welcome you to their country. Our trips always fill up quickly, so call the Agora Travel Office today at **(800) 926-6575** to sign on or to receive more information. We look forward to traveling with you soon!

DISCOVER TODAY'S HOTTEST INVESTMENT OPPORTUNITIES WHILE SAILING THE CARIBBEAN

TAIPAN'S GLOBAL WEALTH CRUISE 2001

FEBRUARY 10 THROUGH 17, 2001

It's hard to imagine a more pleasurable way to gain inside information on the world's safest and potentially best-performing investments than this: being pampered with world-class service and amenities as you tour the picturesque islands of the Caribbean aboard one of the most spacious, luxurious, and fun-filled cruise ships ever built. But that's exactly the opportunity *Taipan* has helped to arrange. You'll meet with some of the world's foremost financial experts aboard the brand new, colossal luxury liner, "Explorer of the Seas."

For seven days and nights, you'll stay in lavish surroundings, enjoying fine dining and an unparalleled array of sports, recreation, and leisure activities. You'll be transported to pristine beaches, lush rain forests, and exotic duty-free markets. You'll have the opportunity to relax and socialize with like-minded people from all over North America. And best of all, you'll hear firsthand about little known and timely opportunities to rapidly increase your personal wealth.

This is no ordinary cruise. And at 142,000 tons, Explorer of the Seas is no ordinary ship. Your gateway to exotic destinations and higher investment profits, Explorer is a floating resort and conference center with facilities to rival anything found on land. You'll see, for example, that Explorer's luxurious staterooms (many with private balconies overlooking the sea) are complemented by such spacious features as the ornate 5-story Palace Theater and the magnificent 3-floor, open-concept dining facility, lavishly decorated in honor of three famous explorers. Even more remarkable is Explorer's four-story Royal Promenade, featuring shops, street performers, and cafés. You'll enjoy non-stop fun at the on-board ice rink, rock-climbing wall, inline skating track, casino, nightclub/disco, ballroom dancing lounge, full-sized basketball court, fitness center, golf simulator, jogging track, and concert hall – amenities few other ships can boast of.

Or you can relax in one of the 3 pools, 6 whirlpools, solarium, sunbathing area, or 2-story library and CD lounge. You can also treat yourself to a massage, facial, sauna, or pedicure in the fully equipped health spa. Or you can enjoy food and beverages at over 15 theme bars and restaurants, including an aquarium bar, live jazz club, sports bar, seaside diner, island grill, champagne bar, cigar lounge, English pub, and up-scale Euro-Italian restaurant. More importantly, as a participant in the Wealth Cruise 2001, you'll have privileged access to exclusive presentations by our all-star team of financial experts in Explorer's state-of-the-art conference center (featuring comfortable seating, lap-top stations, and more).

You see, what really sets the Wealth Cruise 2001 apart from ordinary vacations is the chance to go home with information that can help you make a lot more money in the months that follow. How much more? Well, that partly depends on you. But I'm confident the information you'll receive will be worth much more to you than the cost of the cruise. Among the many financial gurus you'll meet, *Taipan* is sending its "original biotech bug," Brian Hicks. Learn why biotechnology will lead the economy for the next 30 years, and how you can profit from it. As the editor of *The Cutting Edge*, *Rogue Trader*, and a contributing editor to *Taipan*, Brian made his bones by researching and recommending stocks that big Wall Street hot shots laughed at - small and microcap stocks. Brian's first two recommendations, Closure Medical and Microvision, went on to post impressive gains of 434% and 333%, respectively. His recommendations have been stellar, with gains in excess of 848% in Alexion Pharmaceuticals, 526% in Optimal Robotics, 576% in Genome Therapeutics, 889% in Millennium, and 1252% in AVI Biopharma warrants.

One small warning… Even with a ship as large as Explorer, there are only a limited number of cabins available. Frankly, we're running out of cabins fast, so reserve your space now. Just phone our cruise specialists at (800) 926-6575 or (561) 243-6276, ext. 103, fax (561) 278-8765, or e-mail tours@gate.net today. They can answer all your questions, and help you reserve your choice of accommodations before they sell out.

PREMIER INVESTMENT AND LIFESTYLE EXPEDITION TO CHILE

MARCH 21 THROUGH MARCH 31, 2001

Taipan, in partnership with International Living's Discovery Tours, is hosting our second investment and lifestyle tour to Chile. I'd like you to join us for what should be one of the most amazing trips you'll take this or any other year.

Our expedition will take us from the mountainous Lake District in the south, to the Central Valley (full of papaw, papaya, grapevines, and orange, fig and olive trees), then farther up the coast to the mineral-rich high plains of the Big North. Throughout the trip, you'll be awestruck by the country's diversity and breathtaking beauty.

And as we enjoy the scenery, we'll also set our sights on some excellent investment opportunities. The Chilean stock market soared 2,352% between 1985 and 1995! It's up 51% in the last year. In 1999, Chile experienced its first sluggish year of economic growth in 15 years. Few people realize that Chile has the fastest growing economy in the Western Hemisphere. Here's your chance to get to know this amazing country and enjoy First World comforts and Old World charms while exploring some of the best investment opportunities on the planet.

You'll gain a ground-level perspective on investing in the best locally listed public companies in one of the fastest growing economies in the world, as well as details on 31 fast-growing Chilean ADRs (American Depositary Shares) that you can buy on the New York Stock Exchange. You'll find out from local financial experts about Chile's world-renowned private pension fund system, and how you can invest in the companies that manage the funds for big profits (one of these companies, for instance, is up 59% in the last two years).

You'll get the inside story on why Chile is the largest producer in the world of copper, a metal that is up 46% in the last 15 months, and one that is vital to the further development of the "global information economy." You'll go "on-site" with one very profitable mining company, and discover how you can invest for a piece of the profits.

You'll learn about these companies and more when we travel to Chile to speak with local stock market, real estate, business and investment professionals and discover firsthand the best investment opportunities for the next 15 years.

You'll explore the vineyards of the Central Valley and taste wines that rival some of the finest in Europe. And don't forget - along the way, you'll enjoy charming cities, picturesque villages, and some of the most spectacular natural sights in the world.

Here's something new to consider. If you would like to spend more time in South America, we have several options for you. First, join our financial tour to Argentina. From April 1 through 8, we will host a tour to Argentina for the first time ever. We will explore Buenos Aires and Bariloche. We will also visit Iguassu Falls, and even Colonia, Uruguay! Throughout the tour we will learn about financial and real estate opportunities.

You can also choose to stay longer in Chile. There are several optional trips offered, including the Easter Island, Tierra del Fuego, and a cruise of the Chilean glaciers.

Last year we sold out this tour! That's why I urge you to respond quickly. You'll find this investment tour of Chile one of the most rewarding experiences of your lifetime. So don't miss out again. For reservations and a complete itinerary, contact Agora Travel (800) 926-6575 or (561) 243-6276, fax: (561) 278-8765, or e-mail Tours@gate.net.

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