

TAIPAN



FORESIGHT COURAGE PROFITS

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From investment rags to retirement-driven riches: How a graying America can inject your portfolio with green

by Martin Denholm



Martin Denholm

“Sell in May, then go away.”

You’ve probably heard this old investment adage before. And while it’s true that the stock market historically experiences its worst performance between May and October, don’t be put off by this phrase. You can still make plenty of money from your investments. Allow me to explain how.

There’s a trend occurring all across America. A huge demographic shift. I remember doing a seminar presentation and assignment on this very subject in an American Studies course of mine back at university in London ten years ago.

It was called “The Graying of America” — and it was right on the money. Over the past decade, America’s elderly population has shot up markedly. In fact, recent statistics show that the number of folks in America aged 65 and over is racing ahead at four times the rate of the broader population.

And that’s just for starters.

In just a few years, roughly one in four Americans will be classified as “elderly” (65 and over). And by 2050, that number is projected to total 80 million — double today’s figure. But in an era when new age-enhancing medical technologies and drugs are constantly being discovered, it’s the “85 and over” age bracket that is growing the fastest of all groups. In fact, it’s growing at such a rapid rate that by 2011, there will be six million Americans aged 85 or older. By 2050, over 5% of the U.S. population could be 85 or older. Taking into account general population growth over that time, that’s a lot of old geezers!

From 35... to 47... to 77: America’s age-expanding evolution is now set to net you some extra money

It wasn’t always like this. Centuries ago, when America was founded, life expectancy was just 35 years old. If that were the case today, that would put a fellow like me in “elderly” status!

By 1900, the picture looked a little brighter for folks, with life expectancy climbing to 47. Today, the figure stands around 77. But there’s no question this number will rise in the coming years. And most folks living longer will be the infamous 70 million “baby boomers” born between 1946 and 1964. This wave of retirees and folks in their twilight years represents a pretty straightforward and potentially very lucrative profit opportunity for you.

To be honest, there were several companies I could have picked in relation to this issue. After all, newly-retired folks have a lot more time on their hands to do the things and buy the goods they’ve always wanted — especially since many of today’s seniors have about 40% more money to spend than their parents did. We’re talking about things like vacations, hotels/resorts, cruises, restaurants, home construction, and leisure and sports-based goods like boats and golf equipment. The list goes on.

But after doing the research, it was a no-brainer to recommend a company in this industry.

A little assistance goes a long way... for seniors and investors

Back in the day when people weren’t quite as busy as they are today, it was a lot easier to take care of an elderly or disabled family member in the home. But in today’s manic world,

We at *Taipan* are no strangers to making profitable picks on companies in the assisted industry. Back in the February 2004 issue, Erin Beale recommended **Sunrise Senior Living (SRZ:NYSE)** at US\$40. The stock flourished and handed readers gains of 30% when Erin cashed out at US\$51.85 on May 2, 2005.

where parents' lives are often filled with long working hours, regular daily errands, and boisterous kids who need constant supervision and chauffeuring to soccer practice and dancing lessons, it's become increasingly difficult for working adults to care for a parent in the home. It's not that they're being neglectful — it's just that they don't have enough time or energy to care for them properly. In addition, there's an emotional issue at stake, too, in that elderly parents often don't want to be looked after, for fear of losing their coveted independence they've had their whole lives.

This was certainly true in my grandfather's case in England. That was before my family made the difficult — but necessary — choice to place him in a nursing home/assisted living center. At 90 years old, he's still going strong, and mentally, he's as sharp and feisty as ever! But physically, he's wheelchair-bound and unable to care for himself any longer.

That's why these places are a god-send. And when you discover that they've enjoyed some 15–20% growth over the past few years in America, with over 600,000 people nationwide choosing this option, it makes for a healthy profit opportunity.

For seniors, assisted living centers combine the best of both worlds. Residents are able to live in their own private apartments or rooms and have plenty of freedom to perform the tasks they can still manage, yet also receive the essential help they need to do the things they can't do for themselves anymore. With the care they receive, plus

shelter, meals and plenty of opportunities to socialize and make friends, as well as recreational activities and outings, it's the perfect solution.

And in today's world, where people are increasingly busy and don't have the time to provide in-home care for senior family members, there is always going to be a need for these places. That means plenty of repeat business. And to give you an example of how lucrative that business is, it costs about £1,400 pounds per month for my grandfather's expenses. That's the equivalent of US\$2,440. But as you'll see in a moment, prices for some of this company's units are significantly higher.

This fast-growing company in a fast-growing sector is adding to its portfolio... and can do the same for yours

When you're talking about senior healthcare services, **American Retirement Corp (ACR:NYSE)** has the bases well covered. Founded in 1978 and based in Nashville, Tennessee, its business operates in four main areas.

The independent living services area is basically like a retirement community, providing shelter, meals, laundry, house-keeping, transportation and social/recreational activities. It also provides healthcare services, which range from dietary/nutritional health and exercise classes to regular care for those with more serious diseases.

The assisted living unit helps folks who require more direct help with

daily life and ties in closely with the company's nursing center division, which provides professional nursing care. American Retirement Corp's other strand focuses on physical/occupational/speech therapy.

At the end of 2005, the company had 76 assisted living centers in 19 states. Initially, you might not think that's very many, but those facilities have room for around 16,000 residents. It also tells me that the company has plenty of room to grow, compared with its larger rivals — something it's already forging ahead with in 2006.

Barely five weeks into the year, the firm announced that it was buying four new communities in Texas and Kansas from Cypress Senior Living in a deal worth a total of US\$146.3 million. Specifically, this included centers in the substantial metropolitan areas of the Dallas/Fort Worth area, as well as the Town Village Leawood Retirement Community in Kansas City.

Following the yellow brick road to Kansas

These four acquisitions alone gave American Retirement Corp an additional 896 units, which between them raked in revenues of US\$19 million in 2005. In addition, the 209-unit Leawood site is currently only three-quarters full and adds to the company's strong presence in the Kansas City area. Back in November 2005, ACR bought the 101-unit Epoch Assisted Living of Overland Park, now renamed the Freedom Pointe of Overland Park.

ACR wasn't quite finished with Kansas though. In early April, it forked over US\$29.5 million for two more Kansas City properties — The Sweet Life at Rosehill and The Sweet Life at Shawnee. Combined, these two facilities have room for 106 nursing care units (largely reserved for Alzheimer's patients) and 44 assisted living units. Currently almost 90% full, each occupied unit generates monthly revenue of

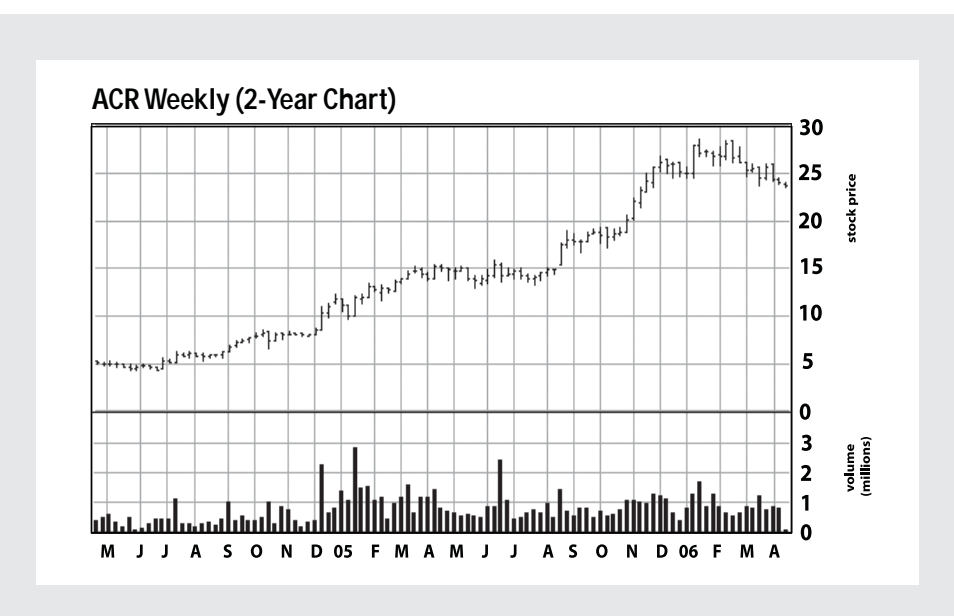
US\$5,700. Pretty nice chunk of change.

At around the same time, the company also added to its seven other operations in the Florida market by buying Freedom Village of Bradenton from Westport Senior Living for US\$95 million. This bigger facility boasts 500 independent living units, 140 assisted living units and 120 nursing units and scooped up US\$30 million in revenues in 2005.

From tired old man to spritely youth: Financials leap back to life

With all these acquisitions, American Retirement Corp now has a portfolio of 80 facilities in 19 states, with almost 17,000 units available. This is a company building up through buying out in a major way. And if the company's 100% return-on-equity is anything to go by, management is making some smart decisions.

The future certainly seems to bode well for ACR. 2005 revenue rolled in at US\$495 million (US\$16.29 per share) — up 34.4 % from the US\$368.2 million recorded in 2003 and 11% from 2004's US\$447 million. That produced a net profit of almost US\$70 million (US\$2.15 earnings per share) — a huge jump from



the ugly US\$11.3 million loss in 2004. And such improvement and growth is reflected in the company's net profit margin of 14%, which is seven times higher than the industry average. It's also highlighted in the stock's 57.6% run over the past year. With US\$40.7 million in cash on the books and US\$60.7 million in operating cash flow, American Retirement Corp is well-placed to expand further.

So why buy now? Well, for starters, the stock has eased off a little from its 52-week high of US\$28.69 set on Jan. 17, 2006. That makes for a more attractive entry price. But what gets me really

excited is the company's projected 35.4% earnings growth in fiscal 2006 and 27.7% in fiscal 2007.

American Retirement Corp currently doesn't pay a dividend. But if you add it to the dividend-yielding companies that I've recommended to you here before (as shown in the table below), then I think you'll find that it will make for a tidy, wealth-producing investment — and prudent for your retirement as well.

Buy American Retirement Corp (ACR:NYSE) under US\$25 Remember to protect yourself and set a 20% stop loss at US\$20. ■

NAME	ENTRY DATE	ENTRY PRICE	STATUS	EXIT DATE	CURRENT/ EXIT PRICE	ANNUAL DIVIDEND + YIELD	GAIN
Abercrombie & Fitch (ANF)	11/24/03	\$28.83	Closed first half	11/4/04	\$42.17	\$0.70 per share; 1.2% yield	45%
As above	As above	As above	Open second half of position	N/A	\$58.02	As above	101.2%
Aramark Corp (RMK)	8/31/05	\$27.32	Open	N/A	\$28.00	\$0.28 per share; 1% yield	2.5%
BG Group (BRG)	7/20/05	\$39.93	Open	N/A	\$69.49	\$0.72 per share; 1% yield	74%
Newell-Rubbermaid (NWL)	4/6/06	\$25.40	Open	N/A	\$25.48	\$0.84 per share; 3.3% yield	0.3%
Serono (SRA)	3/0/04	\$16.80	Open	N/A	\$16.54	\$0.32 per share; 2% yield	- 1.5%
Southern Company (SO)	8/2/04	\$29.20	Open	N/A	\$32.00	\$1.55 per share; 4.8% yield	9.6%
Suncor Energy (SU)	8/31/04	\$27.80	Open	N/A	\$86.83	\$0.21 per share; 0.2% yield	212.3%
Taiwan Semiconductor Corp (TSM)	3/23/04	\$9.90	Closed	3/24/06	\$9.70	\$0.32 per share; 3% yield	- 2%
Wolverine Worldwide (WWW)	12/1/05	\$21.90	Closed	3/24/06	\$21.77	\$0.30 per share; 1.2% yield	- 1%

The perfect way to capitalize on the alternative energy market

by Sara Nunnally

By now, you probably know all about the increasing popularity of Exchange-Traded Funds (ETFs). Simply put, these funds trade like stocks, but track an index of companies in their respective field. For example, you might have heard about the imminent arrival of the new silver ETF — the first of its kind on the market. It's the perfect way to invest in any market in a safe, balanced and straightforward manner.

The first quarter was another extremely positive one for ETFs and the **PowerShares Wilderhill Clean Energy ETF (PBW:AMEX)**. As you can see from its chart, this new ETF jumped about 31% over the three-month period and firmly established a rising uptrend.

PBW is based on the Wilderhill Clean Energy Index (ECO:AMEX). The relationship is exactly the same as the Dow Diamonds (DIA:AMEX) is to the Dow Jones Industrial Average (DJI).

Some of PBW's components will no doubt be familiar to you — companies like Evergreen Solar Inc. (ESLR:NASDAQ); Energy Conversion Devices Inc. (ENER:NASDAQ); Distributed Energy Systems Corp. (DESC:NASDAQ); UQM Technologies Inc. (UQM:NYSE) and Ormat Technologies Inc. (ORA:NYSE).

And speaking of a balanced investment, investing in the PowerShares Clean Energy ETF is like combining nearly every renewable energy sector in one vehicle. Quite simply, that means you get excellent diversification and less volatility. For example, the vast majority of companies in the

PowerShares Clean Energy ETF come from industrials (38.5%) and information technology (30.4%). The consumer discretionary sector boasts 9.1% of the fund, while materials and utility companies comprise 8.9% and 6.3% respectively.

However, because many funds choose to hold smaller companies that aren't publicly traded, or are foreign companies that investors may have a problem buying into, some of them don't enjoy much liquidity. That means if I were to recommend one of these companies individually to a lot of people, it would artificially inflate the stock price. But because they're included together in one investment vehicle, you'll have less of a problem and still be able to capitalize on the enormous potential of the smaller components. This added exposure to profitable private companies is definitely a huge bonus in the renewable energy sector.

By August, you could be sitting on a 30–50% gain

There's no doubt that these are high times for ETFs. These investments are enjoying unprecedented popularity, and given that PBW has done so well since the start of 2006, I see the trend continuing. As the fund has shown, it likes to move in big waves, topping out and then retracing significantly.

That said, I believe this alternative energy investment can easily make 30–50% by August. I think this is one of the best long-term investments available and I actually see it doubling in a year's time. However, because of these big movements, I suggest you ride out any volatility by employing a 30% stop loss for this recommendation.

Buy PowerShares Wilderhill Clean Energy ETF (PBW:AMEX) under US\$22.10. Set your 30% stop loss at US\$15.50. ■

PBW Daily (1-Year Chart)



Extreme Chinese makeover: A powerful economy, growing population and surging Internet use spell a turnaround for this beaten-down star

by Ian L. Cooper

In late 2004 *Red Zone Profits'* Chris DeHaemer recommended buying positions in three of the world's most undervalued and fastest-growing stocks, including **Netease.com** (NTES:NASDAQ), **Sohu.com** (SOHU:NASDAQ) and **Sina Corp.** (SINA:NASDAQ).

As you can see from the table below, these stocks have flourished, on the back of China's explosive GDP growth rate.

NAME	ENTRY DATE	ENTRY PRICE	STATUS	EXIT DATE	EXIT PRICE	GAIN
NETEASE.com	8/23/2004	US\$37.75	Closed	11/19/2005	US\$60.10	59%
SOHU.com	8/23/2004	US\$15.64	Closed	11/19/2005	US\$18.13	16%
SINA CORP	8/23/2004	US\$20.10	Closed	11/19/2005	US\$24.92	24%

But not all Chinese stocks have enjoyed such a great run. Others like **Shanda Interactive** (SNDA:NASDAQ) have plummeted from a US\$40 high to less than US\$14 in recent history on fears that China's strong economy wouldn't last.

Here's the thing though: those fears have been greatly exaggerated. In fact, the Chinese economy is so strong that it saw a 9.9% growth in 2005 after the 9.5% rise in 2004, according to the National Bureau of Statistics. It's so strong that many believe it can continue to grow at a 9% clip for a very long

time. According to the CAS Center for Forecasting Science at the Chinese Academy of Sciences, the Chinese economy has been "maintaining a rising momentum and low inflation rate." With the growth rate expected to accelerate over the second half of 2006, I'm hitching a ride and picking up a beaten-down Chinese stock like Shanda.

spend an average of 15.7 hours online per week — a 20% increase over 2004. This alone highlights the rapid growth of the Internet in China.

But consider this: the current online population of 111 million makes up just 9% of the country's 1.3 billion population. If that isn't huge growth potential, then I don't know what is.

Take the Chinese online gaming industry, for example. In 2004, revenue hit US\$298 million. But in 2005, that figure shot up to US\$600 million. With 26 million users already and a rapidly-growing consumer population in a surging economic climate, consumer spending should increase further and the number is expected to grow to US\$758 million this year. This should give a further boost to Chinese Internet stocks. Shanda game users have in fact increased from two million in Q4 2004 to 2.55 million in Q3 2005 to 2.68 million today. And according to reports, the industry is expected to be worth US\$6 billion by 2010. *BusinessWeek* says that the driving force behind even more online game playing in China is the fact that Sony's PlayStation and Microsoft's Xbox aren't available in China due to piracy concerns.

Let 111 million guide you towards investment success

I'll be honest: Shanda has endured a rough ride in recent history. In fact, back on February 27, the company posted numbers so bad that the stock slumped about 20% in a day. But don't be fooled: there is really no denying the enormous growth potential of the Chinese online market.

For example, there are now 111 million Chinese Internet users — a 17 million jump from 2004. These users

An ugly duckling poised for a strong comeback

There's no doubt about it. Shanda's recent slump has made it one of the

ugliest Chinese Internet stocks. But don't be scared! This merely sets off buying signals for us to grab some shares on the cheap as it rebounds off recent lows. Think about it. The vibrant underlying economy, growing population, Internet users and hefty margins bode well for the company.

It's also in the process of acquiring smaller companies to add to its portfolio and is making a move into the hardware market with the EZ Pod remote control. Released in December 2005, Shanda hopes that after some time and exposure on the market, the EZ Pod will become a big hit.

Despite Shanda's poor earnings news in February, that didn't stop Cisco snapping up a 9.7% stake in the company. While it's not yet clear what kind of impact this will have going forward, or if Cisco will have a voice in future SNDA operations, it's certainly a positive break for the company. And reports suggest that it could even enter the mobile phone industry with Motorola.

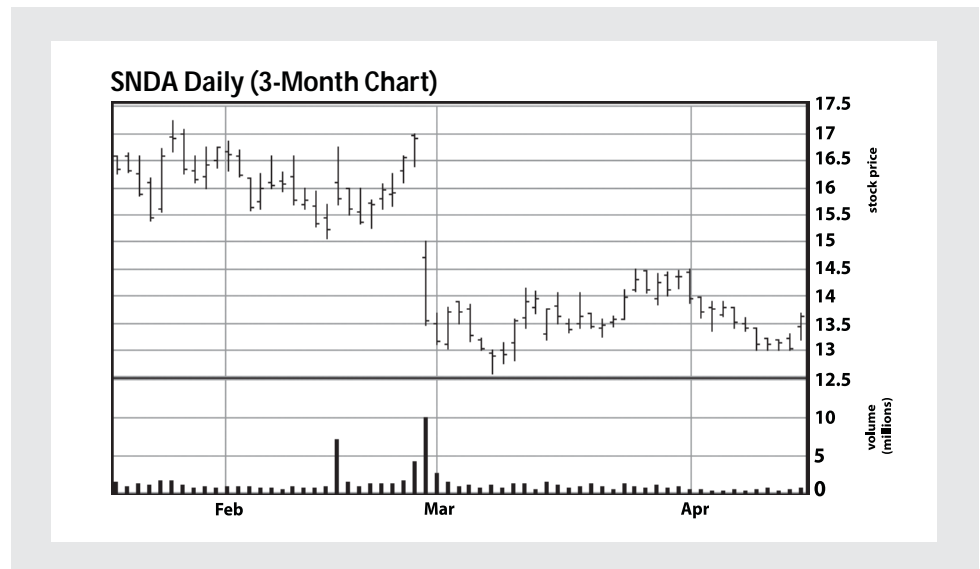
The investment stars have lined up nicely for you here. Recent downgrade-

induced weakness has provided you with a much better entry price. Piper Jaffray cut its rating on the stock from "Market Perform" to "Underperform" and took its price target to US\$10 from US\$25, saying: "Although we are impressed with management's vision to transform the company from an online game company to a broader media and entertainment platform, we believe the company's bold EZ initiative will limit profitability over the next several quar-

ters and is not without substantial risks."

OK, fine. but I'm not concerned. It's often a waste of time to pay much attention to what brokerage houses say anyway. One thing seems certain: SNDA is very oversold and is long overdue for a bounce off recent lows.

Buy shares of Shanda Interactive (SNDA:NASDAQ) under US\$15.50 and hold for the long term. Set your 20% stop loss at US\$12.40. ■



NEW INVESTMENT STRATEGY

Dividend dogs with a big bark:

Let these Dow heavyweights take you for a walk... to the bank

by Andrew Mickey

Fancy being on trial for making too much profits. What a life, huh?

While this sounds a little odd, this is the exact scenario the big oil companies had to face just a few months ago. Now, while we could debate whether the "excessive profits" trials were a result of genuine interest in uncovering any energy industry impropriety or,

more likely the real reason, whether they were another political stunt aimed at currying public favor, that's not the point. Regardless of the underlying motivation, the Congressional inquisition on excessive profits brought to light some rarely-noted facts that can help give ordinary investors some significant returns.

It's no secret that corporate profits have reached record levels. And after many hours of research, I've uncovered where most of the profits have actually been going. More importantly, I have applied my results to one of the simplest, most popular, and most profitable investment strategies of the past 30 years.

Result? I've uncovered a couple of stocks that will deliver some safe market-beating gains by the end of the year.

Where have all the profits gone?

When you're talking about record profits, the first name that springs to mind is Exxon-Mobil (XOM:NYSE). The company has not only dominated the headlines due to its recent record profit levels, but it has also served as Washington D.C.'s bull's eye for a legislative backlash. After all, while the company has enjoyed a 67% growth in profits since 2003, I came across countless complaints that while the company was scooping up those record profits, shareholders weren't seeing similar growth in their quarterly dividend payouts. As it turns out, they've only seen a 34.6% increase in dividends since 2003.

So where did all the profits go? Well, while Exxon-Mobil invested some money in new equipment and maintenance, there was no significant growth in capital investment. In fact, Exxon-Mobil's capital spending has remained fairly flat over the last few years. The

Share buyback programs are hardly a new concept. But it's a growing trend in corporate finance. In 1985, only US\$16 billion worth of share repurchase programs were implemented. But in 2005 — just 20 years later — public companies spent an astounding US\$456 billion on share repurchase programs. That's a 2,750% increase.

majority of the profits have been returned to shareholders — but in a more indirect way. Share repurchases, or buybacks, return additional profits to shareholders by reducing the number of shares available for purchases. The share price rises because supply is reduced, while demand remains constant and shareholders essentially receive returns in the form of capital gains instead of dividend checks.

Buy back, baby

Share buyback programs are hardly a new concept. But it's a growing trend in corporate finance. In 1985, only US\$16 billion worth of share repurchase programs were implemented. But in 2005 — just 20 years later — public companies spent an astounding US\$456 billion on share repurchase programs. That's a 2,750% increase — clearly not a passing fad and not one that you should ignore.

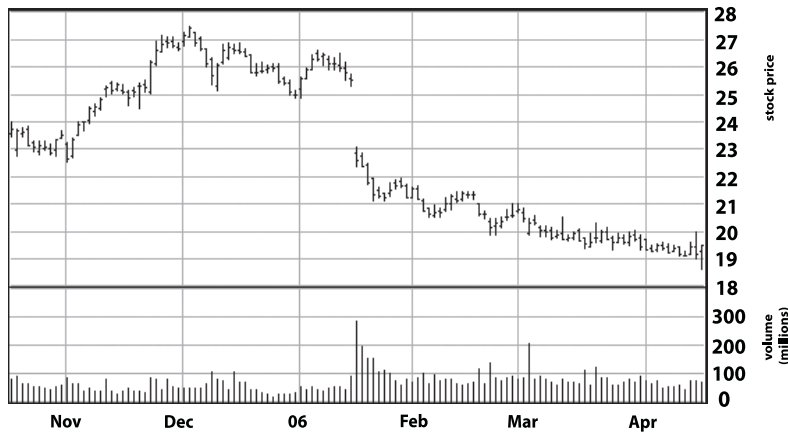
Not all companies are buying back shares. The trend is mostly among larger companies. For example, 29 of the 30 stocks in the Dow Jones Industrial Average had net share repurchases in 2005. However, following buyback programs isn't going to make you above-average returns. You need to apply a systematic approach to benefit from these programs.

“Dogs of the Dow” becoming an investment dog

The Dogs of the Dow investment strategy recommends investing in the ten highest-yielding component stocks of the Dow Jones Industrial Average. It

ORIGINAL DOGS OF THE DOW	CURRENT YIELD	REAL DOGS OF THE DOW	DIVIDEND YIELD	EARNINGS YIELD MULTIPLIER	TOTAL YIELD TO SHAREHOLDERS
Coca-Cola	2.90%	Intel	2.00%	5.82	11.64%
JP Morgan Chase	3.30%	El Du Pont de Nemours	3.50%	3.20	11.20%
El Du Pont de Nemours	3.50%	Citigroup	4.10%	2.32	9.51%
Pfizer	3.80%	ExxonMobil	2.10%	3.40	7.14%
Citigroup	4.10%	AT & T	4.90%	1.50	7.35%
Merck	4.30%	Home Depot	1.40%	4.92	6.89%
Altria Group	4.50%	IBM	1.00%	6.20	6.20%
General Motors	4.70%	Boeing	1.54%	4.00	6.16%
Verizon	4.70%	Pfizer	3.80%	1.60	6.08%
AT & T	4.90%	Proctor & Gamble	2.20%	2.67	5.87%

INTC Daily (6-Month Chart)



was created to measure total cash return to shareholders and to identify the best value stocks in the entire index and was very successful for a considerable time.

Since 1973, the dogs have returned an average of 17.7% per year to investors. And while millions of panic-stricken folks lost big during the bear market between 2000 and 2002, this simple system allowed coolheaded investors to pad their portfolio by 28.7%.

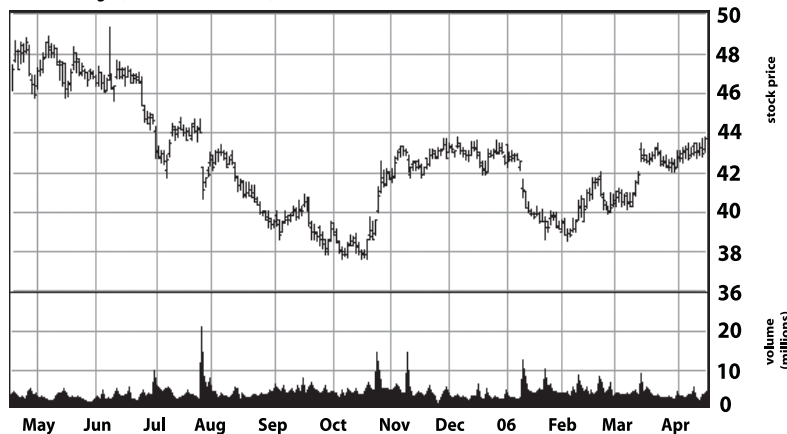
But since 2002, the system has been less than stellar. Due to the popularity of share buybacks, the dividend yield is no longer a truly accurate measure of a company's return to shareholders — and the dogs have steadily lost their

ability to deliver above-average gains to investors. So far in 2006, the dogs have only returned 2.5% while the entire Dow Jones Industrial Average has returned 3.8%. The system is like a car with a flat tire: it will eventually run again, but needs a little work.

“Dogs of the Dow”

The declining performance of the Dogs of the Dow theory is directly tied to the increase in share buybacks. And while most investors have calculated total shareholder return, most of them are still considering only dividend yield and failing to account for the impact of share repurchase activity.

DD Daily (1-Year Chart)



That's why I've created the Effective Yield Multiplier (EYM). Application of the EYM allows you to track companies' total returns to shareholders. As the tables show, when applied to the Dogs of the Dow investment strategy, there is a noticeable difference between which stocks are identified as the underperforming traditional dogs and the much more attractive real Dogs of the Dow.

How the Earnings Yield Multiplier works... and two investments to line your pockets

The EYM is created by calculating the total cash companies are returning to shareholders. For example, if a company pays out US\$1 per share in dividends, but buys back US\$2 of stock per share, the EYM would be 3. The EYM measures the total return to shareholders of US\$3 per share instead of the inaccurate US\$1 dividend commonly considered by investors. Simply put, the EYM tells you the actual, real cash return.

The two companies that emerge on top of the pile to provide you with market-beating returns over the next 12 months are **Intel (INTC:NASDAQ)**, and **El Du Pont de Nemours (DD:NYSE)**. These stocks are the ones paying back shareholders the most for their investments. So there's no need to suffer frustration by the futility of the Dogs of the Dow strategy. But while the rest of the investment world slogs away at the venerable Dogs of the Dow system, get ahead of them and capitalize on a solid opportunity to lock in some solid gains over the year.

Buy Intel (INTC:NASDAQ) under US\$21.25, with a 20% stop loss at US\$17. Buy El Du Pont de Nemours (DD:NYSE) under US\$46.50, with a 20% stop loss at US\$37.20. ■

Cheers to Quilmes! 83% profits swigged down with this South American drinks manufacturer

by Martin Denholm

Taipan editor Erin Beale sure knows how to pick winners. Besides **Dawson Geophysical Co. (DWSN:NYSE)**, **Cemex SA de CV (CX:NYSE)** and **Companhia Siderurgica Nacional (SID:NYSE)** — all of which have enjoyed excellent gains — she recently grabbed profits on another top pick.

Originally recommended in the July 2005 newsletter, drinks manufacturer **Quilmes Industrial SA (LQU:NYSE)** (formerly Quinsa) has done nothing but produce some very tasty gains ever since.

To refresh your memory, Quilmes produces beer in Argentina, Chile, Paraguay, Uruguay and Bolivia, as well as soft drinks and mineral water in Argentina and Uruguay. And it does so with great success. As investors have caught on to its flourishing performance, its stock has consequently galloped ahead.

One look at the stock's performance provides ample evidence that shares raced to a new 52-week high of US\$46.26 on April 18.

Remember: Erin's original recommendation was to "buy under US\$26," with an official entry price of US\$24.25 on June 30, 2005, when the issue was posted online.

In an e-mail sent to *Taipan* readers on Thursday, April 13, Erin advised you to cash out on the play, as the stock traded around US\$44.30 — a total gain of 83%.

The stock actually finished that day's trade up US\$6.45 (17.1%) at US\$44.10 on the back of the company's two largest shareholders, Companhia de Bebidas das Americas and AmBev. Beverage Associates have "entered into an agreement pursuant to which B.A.C. has agreed to sell all its remaining shares in LQU to AmBev for a purchase price, which, according to B.A.C. and AmBev, is approximately US\$1.2 billion. Upon

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the closing of the transaction, AmBev will hold 91.18% of LQU's total share capital and will have the ability to appoint all of the members of LQU's board of directors." This means AmBev will control about 92% of Quilmes.

A strategic change of the beer barrel

The news completed a change in the beer climate for Quilmes. Back in the day, Quilmes was as popular in Argentina as Budweiser is in the United States. Following expansion into Chile,

Uruguay, Paraguay and Bolivia, Quilmes controlled some 75% of the domestic Argentinean beer market.

But thanks to some stiff competition from Brazilian rivals like AmBev, Quilmes began to struggle. When Argentina's economy tanked in 2002, beer was the last thing on people's minds and Quilmes' net sales crashed from the US\$938.7 million posted in 2001 to US\$468.6 million.

Even as the economy dragged itself back up, Quilmes still struggled in the face of AmBev's lower-priced Brahma beer. Rather than scrap for sales, Quinsa made a wise move to join forces with AmBev, acquiring several brands and distribution rights. Though still two separate companies, the Quilmes/AmBev merger has promoted growth on both sides.

Like a Swiss banker, Zurich-based Serono rings the register and delivers strong first quarter results

Hey, here's a blast from the past. It was way back in the March 2004 *Taipan* issues that I recommended Swiss biotech firm **Serono (SRA:NYSE)** — a global biotechnology leader.

Among the eight drugs in its stable, Serono is the force behind the highly popular MS drug Rebif — its best-performing product that continues to propel the company along strongly.

The company recently released first quarter earnings which showed a 17.7% worldwide jump in Rebif sales to US\$327 million, despite the threat of stiffer competition from other oral-based forms of MS treatment. Nevertheless, Rebif remains the fastest-growing drug in the treatment of relapsing MS in America and continues to increase its presence abroad, too.

This, coupled with an encouraging 6.3% sales rebound to US\$139.1 million for Serono's fertility drug Gonal-F, resulted in the company reporting a 16% rise in overall product sales to US\$667.5 million and a massive 75% surge in net profit to US\$171.6 million. The latter thrashed expectations that called for a rise to US\$142.9 million.

The company's other fertility-based products — Cetrotide, Crinone, Luvier and Ovidrel — collectively enjoyed a 16.6% sales gain to US\$22.6 million. Finally, Serono's other two products — Saizen and Raptiva — grew by 10% to US\$49.9 million and by 202% to US\$13.6 million respectively.

The complete results led Serono to beef up its full-year earnings guidance from a range between US\$42 and US\$43.40 per share to US\$45 per share.

Looking forward, Serono also has a couple of promising developments in the works. Together with partner BioMarin Pharmaceutical Inc, it first, it announced a positive outcome to Phase III clinical studies of Phenoptin, which treats phenylketonuria.

In addition, it also submitted a Biologics Licence Application to the FDA for a new Rebif formulation. Specifically, this application was made using supporting Phase III clinical trial evidence that showed patients with relapsing MS experienced a significant reduction in antibody formation, as well as greatly increased tolerance using the new formulation.

My official entry price on Serono was US\$16.80 back on March 1, 2004

and while the stock is down slightly at US\$16.30, this is one worth holding on to as the company hunts for acquisitions. In addition, don't be surprised if buyout rumors start to swirl again. Until recently, Serono was actively looking for a buyer, but decided to shelve those plans when it found no takers at the right price. I'm betting that CEO Ernesto Bertarelli and his fellow executives will sit up and listen if the right offer happens to come along. Until then, sit tight with this one. If you managed to get in around US\$16.80, following my original recommendation, make sure you set a 20% stop loss from here at US\$13.40.

Rebif remains the fastest-growing drug in the treatment of relapsing MS in America.

Ethanol-fueled gains for Archer-Daniels-Midland

Good news if you're holding **Archer-Daniels Midland (ADM:NYSE)** — Sara Nunnally's recommendation from the March 2006 issue. With an official entry price of US\$31.28 on February 27, the stock raced to a new 52-week high of US\$38.20 on April 21.

The company is thriving, thanks to significant ethanol demand growth over the past few years — a trend that Sara says is only going to continue because of the 7.5 billion gallon mandate included in the Energy Bill. As Sara explains: "Another catalyst for continued demand growth is the initiative of refineries replacing MTBE with ethanol (approximately 2 billion gallons worth). Many are trying to do so before the summer driving season starts. As a result of this demand growth, 34 new ethanol plants are currently under construction with plans for a further 150 new plants or expansions of current plants are in the works.

"I like the legs of this industry for the next few years. And with such a drastic rise in demand, and consequently stock prices, you should expect some slight corrections or consolidation periods. Over the long-term, though, I'm a big proponent of having an ethanol producer in your portfolio." Continue to hold ADM."

Uranium Participation Fund enriches its fortunes

In last month's issue, Andrew Mickey brought you a recommendation on Canadian firm **Uranium Participation Fund (U:TSX)**.

While the position hasn't moved much since the recommendation, Andrew tells me that shareholders recently authorized the expansion of the fund's business model. He explains: "The fund is now authorized to buy the rights to enriched uranium and to make uranium loans. These two new capabilities will allow the fund to raise even more capital and leverage the fund to benefit even more so from higher uranium prices.

"The Uranium Participation Fund will essentially be a uranium broker and will exercise significant control over the market. Those businesses in need of already limited supplies of uranium are going to have to turn to the Uranium Participation Fund to get what they need. If they don't, I'm sure more than a few million users of nuclear generated electricity are going to get more than a little upset.

"The Uranium Participation Fund will now be delving into purchasing enriched uranium. This is a key move, since enriched uranium costs are likely to double from the current bargain price of US\$110 per pound to US\$200 per pound by the end of the year, given the structure and significant government regulation of the uranium enrichment industry. The Uranium Participation Fund is getting in at the right time in this market. ■

You can play the ups and the downs...but not the sideways action: Sell PPH

by *Martin Denholm*

When I asked *Taipan* editor and *Red Zone Profits* founder Christian DeHaemer for an update on his Core Portfolio member **Pharmaceutical HOLDERS (PPH)**, it was clear from the look on his face what his thoughts were.

Trading like a regular stock, PPH is a basket of 21 companies that allow you to gain exposure to and profit from the pharmaceutical industry in one single investment vehicle. As Sara Nunnally mentioned in her article earlier, these kind of investments are becoming increasingly popular today, as investors search for easy, lower risk ways to take advantage of a single industry without having to undertake hours of research and expose themselves to

more risk by picking a single stock. After all, diversification is key — and that's why we placed PPH in the Core Portfolio.

However, having watched it meander along rather aimlessly for a while, our patience has run out waiting for it to make a move to the upside. In addition, analysis of PPH's chart shows a continuation of this sideways action for the foreseeable future.

Christian entered the position back on May 1, 2005 (May 2005 issue) at US\$75. But with the stock trading water, we advised you to sell in the April 21 *Taipan Hotline* put your money to better use elsewhere. Naturally, we've also removed it from the Core Portfolio. ■

420% by the end of 2006

On April 4th, 2006, during a live teleconference, global oil guru Christian DeHaemer made the case, before 294 of our *Taipan VIP Inner Circle* members, for why the United States must break their dependency on foreign oil immediately and how a small group of astute investors can capitalize on this urgent situation to grab gains as big as **420% by the end of 2006**.

Christian, as well as his special guest, *Breakaway Investor* executive editor Andrew Snyder, presented the VIP attendees with 3 companies set to be the major beneficiaries of a shift away from foreign energy sources.

One of them, an alternative energy stock that's sure to become a major player in this new energy landscape, is **up an astounding 140% since April 4th** when it was recommended!

This was just the latest in a series of invitation-only teleconferences held for our *Taipan VIP Inner Circle* members. Topics have ranged from foreign-investment in China to exciting new technologies to alternative energies and always include exclusive profit-bearing recommendations for those VIP members in attendance.

To learn more about the *Taipan VIP Inner Circle*, and the endless benefits afforded to its members, such as the Christian's teleconference and the 140% gain members are already enjoying from it, please contact John Wilkinson at our VIP Trading Services desk at: 877-465-1416.

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COMPANY NAME	BUY DATE	BUY PRICE	CURRENT PRICE	TOTAL GAIN (excluding dividends)	CURRENT DIVIDEND & YIELD	INVESTMENT RECOMMENDATION
REAL WEALTH						
AMERICA FIRST APARTMENT INVESTORS (APRO)	10/1/04	\$11.58	\$14.37	24%	\$1 PER SHARE/6.9%	BUY BETWEEN \$11.50 AND \$12.50
ANTHRACITE CAPITAL INC (AHR)	11/29/04	\$11.78	\$10.39	-11.6%	\$1.12 PER SHARE/10.6%	BUY UNDER \$11
ENERGY PLAYS						
SOUTHERN COMPANY (SO)	8/2/04	\$29.20	\$32.00	9.6%	\$1.55 PER SHARE/4.8%	HOLD AT CURRENT LEVELS
SUNCOR ENERGY (SU)	8/31/04	\$27.80	\$86.83	212.3%	\$0.21 PER SHARE/0.2%	HOLD AT CURRENT LEVELS
DAWSON GEOPHYSICAL COMPANY (DWSN)	5/3/05	\$19.70	\$29.00	47.2%	—	HOLD AT CURRENT LEVELS
TECHNOLOGY PLAYS						
iVILLAGE (IVIL)	10/4/05	\$7.48	\$8.45	13%	—	BUY UNDER \$7.50
SYMANTEC (SYMC)	5/3/05	\$18.91	\$15.88	-16%	—	BUY UNDER \$20
GENEREX BIOTECHNOLOGY (GNBT)	9/1/05	\$0.59	\$2.72	361%	—	BUY UNDER \$1
OTHER PLAYS						
ISHARES RUSSELL 2000 GROWTH INDEX (IWO)	7/22/05	\$68.85	\$79.74	15.8%	—	HOLD AT CURRENT LEVELS
COMPANHIA SIDERURGICA NACIONAL (SID)	8/31/04	\$15.45	\$34.46	123%	\$4.68 PER SHARE/13.3%	HOLD AT CURRENT LEVELS
TELEFONOS de MEXICO (TMX)	9/1/05	\$19.25	\$21.02	9.2%	\$0.70 PER SHARE/3.3%	BUY UNDER \$22
NEWELL-RUBBERMAID (NWL)	3/28/06	\$25.48	\$25.40	0.3%	\$0.84 PER SHARE/3.3%	BUY UNDER \$27