TAIPAN

Bigger…More Profitable…And Yours Free of Charge: The *Taipan* Special Bonus Issue With Four More Stocks to Stuff in Your Portfolio

From the Desk of Martin Denholm—Executive Editor, Taipan

July 11, 2005

Dear *Taipan* Subscriber,

You should have recently received your July issue of *Taipan* in the mail.

But I have some great news for you. We're not stopping there this month.

After I met with all the editors and gathered their recommendations, it turned out that we were so stuffed with profitable investment articles that we couldn't fit them all into the regular twelve page issue.

Obviously, we didn't want you to miss out on profits. So what we've done is produce a second issue for you—essentially a bonus issue. And we've done so at no extra cost to you.

Here's the profitable recommendations you'll find in the following pages:

- Why **Best Buy (BBY:NYSE)** really is the "best buy." Michael Wiles, technical analyst at the *WaveStrength* group, will show how you can grab 406% from Best Buy options.
- How regular retail bar codes could become a thing of the past, as cutting-edge RFID technology sweeps in to replace them. *Taipan* editor and member of the *Value Edge* and *Volume Spike Alert* franchises Andrew Snyder gives you details on this groundbreaking innovation—and a company set to bag some serious profits.
- Brit Ryle, creator of the *Money-Flow Matrix Trader* investment service, brings you a company with a 16% five-year growth rate, a forward P/E ratio of 13 a PEG ratio under 1 and whose stock could be poised for a 50% to 75% gain over the next year.
- Fresh from his research trip to South Korea, Alex Chinn of the *Red Zone Profits* group and new *Emerging Market Investor* service highlights how you can profit from one of the country's thriving technology companies.

Now, while I can't promise you we'll send you this free bonus issue every month, what I can promise is that whenever we can't squeeze all our investment recommendations into your regular *Taipan* newsletter you'll still receive every recommendation we have to offer. This way you'll never miss out on anything.

This is part of our aim to enhance your *Taipan* newsletter and give you even greater value for your money.

We're delighted to have you with us and look forward to a continued long and profitable relationship.

Best regards,

Martin Denholm

Martin Denholm
Executive Editor, *Taipan*

P.S. By the way, you can make sure you receive every bonus issue we produce—along with your regular monthly *Taipan* issue, of course—by taking advantage of this special offer.

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Here are three ways you can lock in this offer:

Option #1: Renew your *Taipan* subscription for 1 year at the regular price of US$89.

Option #2: Renew your Taipan subscription for 2 years at US$129 per year.

Option #3—the BEST OPTION: Why bother worrying about filling in another renewal form, or receiving notices again? Enroll in our "auto-renew" program today and we'll automatically bill you US$79 a year on your credit card for your *Taipan* subscription until you tell us to stop.

This is by far the most beneficial option. Not only do you save US$10 off the regular 1-year renewal price, but you also lock in this lowest price for as long as you want. Your rate will never go up. And you'll never run the risk of missing an issue or profitable recommendation.

Of course, you can continue to expect to receive your monthly issue of *Taipan* around the middle of the month—our way of filling you in on the best investments of the moment. In addition, the *247profits e-Dispatch* is how we update you via e-mail every day. It's like a one-two punch. There's simply no better way to profit.

I truly cannot think of a better investment you could make in your financial well-being than automatically renewing your subscription to *Taipan*. Act today by returning the enclosed form. ■

BONUS ISSUE

Bring on the lawsuits: While Best Buy pays the price for dishonesty, let the stock's impending dip pay you!

by Michael Wiles

I'll be honest with you: there's no love lost between me and retail superpower **Best Buy (BBY:NYSE)**.

My recent trip to return faulty merchandise marks the only time I've actually been threatened for trying to exchange damaged goods.

When the sales associate told me that I couldn't return an opened software bundle, despite it being defective, I was understandably puzzled, but remained calm. When I suggested we get the manager to discuss the problem, he mustered up all his experience working with the public and replied: "You want a problem?"

It would seem that Best Buy takes a different spin on the old consumer adage: the customer is always wrong—and deserves what's coming to him.

In the end, I was able to exchange the merchandise after finally speaking to the manager (who, in the interest of full disclosure, was very helpful and professional), but disgruntled employees and faulty merchandise are only symptoms of the larger problems Best Buy is currently facing.

"Customer-centric" stores… but is Best Buy missing the point?

You've probably seen the ads on television, where Best Buy promotes itself as a retail outlet of the people, with sales associates interacting well with customers, eager to help them best utilize their products in everyday life.

According to a recent report in the Minneapolis Star Tribune, many Best Buy stores are being converted into "customer-centric stores" that train employees to "engage shoppers in wider discussions about their jobs, families, and leisure activities."

The plan is part of a larger effort to create an "experience [that] will be significantly different" than what a customer is accustomed to. But does Best Buy's self-image match up with reality? It certainly didn't in my experience—and I'm not the only one. One has to ask whether this noble venture (which the company plans to expand from 150 to 200 of their current locations) is really what Best Buy needs in order to thrive among today's high-pressure retail industry. It sure doesn't seem to be doing the trick.

So, where did Best Buy go wrong?

According to the Wisconsin Department of Justice, a little honesty would take the company a long way. In fact, it's Best Buy's failure in this department that is causing the greatest clash between its self-image and actual business practices.

In late May, Wisconsin filed a civil action lawsuit against Best Buy, asserting the company "misled consumers about rebates, service plans and other services."

There are over 200 complaints included in this lawsuit claiming that Best Buy misrepresented rebate offers by implying that customers would be refunded a stated amount of money when only a portion of that amount would actually be refunded in cash. The remaining portion would be given in Best Buy store credit, which is not redeemable for cash.

Further, Wisconsin is suing Best Buy for offering "free trial" magazine subscriptions to customers who end up getting charged, and for assessing a 15% restocking fee on returned merchandise regardless of its condition, according to the Star Tribune.

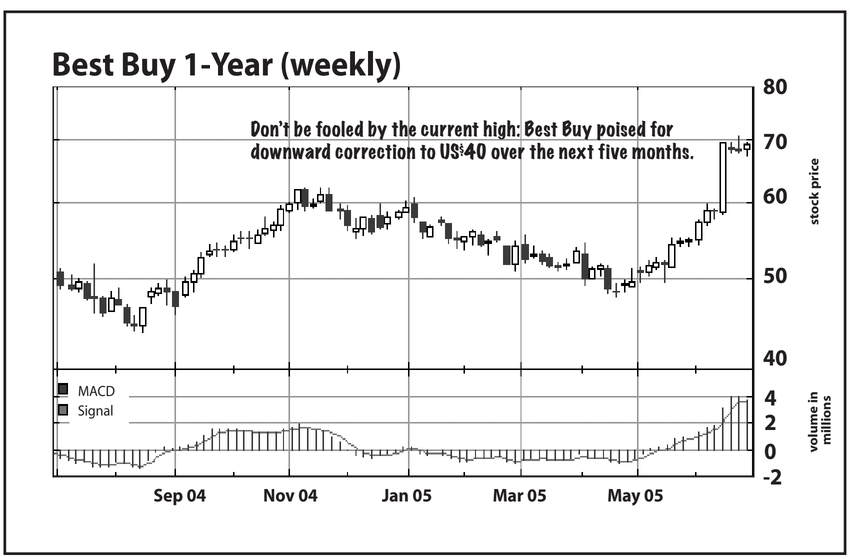
The Milwaukee Journal Sentinel also says Best Buy has refused to honor its "no-lemon policy," which offers to replace items requiring multiple repairs.

All in all, the State of Wisconsin is seeking damages between US$50 and US$200 per violation, which amounts to possible fines totaling between US$11,000 and US$43,000 resulting from offenses alleged at the 16 Best Buy locations throughout the state. Granted, that's not much for a big chain like Best Buy. But with similar lawsuits in Ohio and New Jersey, it boils down to public image. Will consumers begin exploring their options?

Not the only "best buy" in town: Stock set for decline over the next five months

So what's to become of Best Buy when consumers begin to exercise their options? Remember, major competitors like Circuit City and CompUSA are often located very close to Best Buy stores and stock mostly the same merchandise. Retail businesses need all the friends they can get in a super-competitive economy, and I wonder whether Best Buy has considered the ramifications of delivering subpar service in this climate. It looks like Best Buy may learn that one the hard way.

As regular readers of *WaveStrength Market Report* know, I first discussed Best Buy's impending decline on May 26 and recommended a LEAPS option play on the stock at that time. Even though the stock had seemingly benefited from news events such as the sector upgrade from "in line" to "outperform" on June 1, the company's history suggested that it wouldn't breach the US$60.00 mark it was approaching, instead dropping to lower ground.



Of course, historical records are sometimes broken, and Best Buy surprised many by breaking above the US$60.00 mark on June 14 (after an earnings announcement that boosted the stock 12%) for the first time since December 1, 2003.

While this development has now pushed the stock to a historical high around US$75, our analysis suggests it will resume its prior decline once the fire underneath it begins to die down.

Here's how to cash in

Our long-term chart analysis suggests that Best Buy is in for a significant decline to US$40 over the next five months.

With that figure in mind, the smart money is on the **Best Buy January '06 55 Puts (BBY MK)**. As price closes in on US$40 this winter, this speculative LEAPS play stands to trade for around US$7.35, good for a gain around 406%. While it is unlikely we'll ride this one until the very end, I've got the feeling we'll be sitting quite comfortably before it comes time to exit.

This LEAPS play is looking even better now than when recommended to *WaveStrength* subscribers in May, since the stock's increase allows us to purchase it at a lower price, translating to greater gains.

Speculative *Taipan* LEAPS Play: Buy the Best Buy January '06 55 Puts (BBY MK) at or under US$1.70.

Michael Wiles is a new member of the Taipan *editorial team and works as a technical analyst for the* WaveStrength *trading group*. ■

Goodbye, boring bar code… hello, RFID chips: The new, lucrative wave of tracking technology

by Andrew Snyder

Radio Frequency Identification.

Remember those three words. You're going to hear a lot about them in the future. Radio Frequency Identification (RFID) technology is going to be used in practically every product on the market.

Take the ubiquitous bar code, for example. This zebra-like code is stamped on nearly every item we buy. But RFID chips make bar codes look like slackers. The technology employed in RFID chips allows easy communication with electronic readers. Anything from the date the product was made to the last person to handle it can be included in its always-on data stream.

It is estimated that as much as US$45 billion worth of inventory is lost in retail supply chains at any given moment. But RFID technology makes it nearly impossible for a product to be misplaced or lost. That means retailers are willing to pay a lot of money for this cutting edge technology. Huge companies like Wal-Mart and Home Depot and even the Department of Defense are already lining up, demanding that their suppliers tag all of their deliveries with RFID chips.

Wall Street's worst-kept secret… but there's a diamond lurking in the rough, tagging prisoners and bagging profits

Unfortunately, the boys on Wall Street already know about the huge role RFID technology is going to play in the consumer market. The share prices of companies specializing in retail RFID products have already soared.

For example, take a look at UNOVA Inc. (UNA:NYSE), a company well-entrenched in RFID technology. Its price has more than quadrupled in the last two years, and it's now trading for over US$20.

That doesn't mean there are no profit opportunities left, though. It just takes a bit of hunting. Luckily, I've found a company that is set to make huge profits from RFID—in a different way.

The products that **Alanco Technologies (ALAN:NASDAQ)** manufactures are going to be tracking the whereabouts of much more important things than boxes of Cheerios and kids' toys.

Alanco specializes in keeping tabs on the world's most dangerous criminals. Prisons across the globe are going to be knocking at ALAN's door. In fact, ALAN recently secured a US$1.5 million contract with the Los Angeles County Jail, firmly vaulting the company into the US$1.4 billion corrections market.

But that's just the beginning. With over 5,000 correctional facilities in the US alone, ALAN has much more room to grow. Worldwide, the demand is astronomical.

The unmatched power of the prism

Alanco's tracking system is called the TSI Prism—arguably the most advanced technology on the market. It differs from any other system because it's the only one capable of performing real-time tracking of multiple individuals simultaneously within a confined environment.

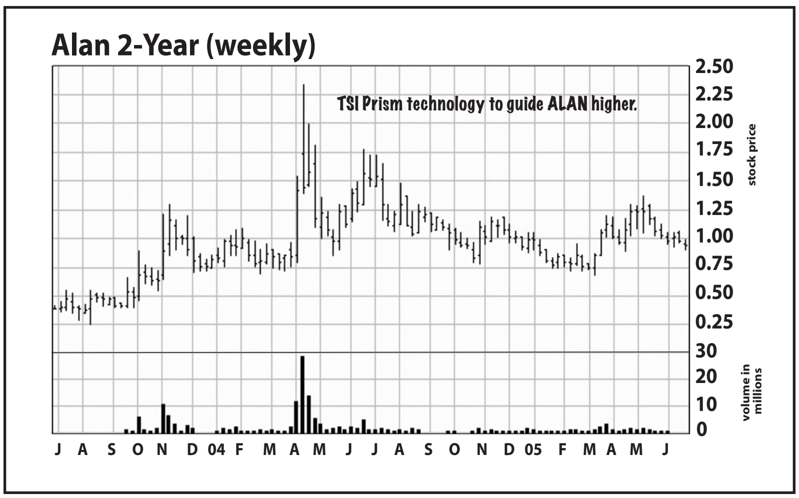
The tracking system consists of five primary components: a tamper detecting wristwatch-sized radio frequency transmitter for inmates, a belt-mounted transmitter worn by the officer staff, receiving antennae, a computer system, and detailed application software.

Because of its real-time tracking capabilities, an alarm will sound the instant an inmate gets into an area where he is not supposed to be. The TSI Prism system performs a perfect inmate "head count" every two seconds. No other system in the world can match it.

Not only does the system prevent inmates from straying into paces they shouldn't be, it also has the potential to protect the lives of those in constant contact with dangerous criminals. If officers find themselves in trouble, they simply press a button on the transmitter and help will immediately be summoned. If an officer is attacked or the transmitter is forcibly removed from his belt, the alarm will sound automatically. ALAN has developed superior RFID technology, and later this year, the TSI Prism system will go online at Los Angeles's Pitchess Detention Center, where it will track over 1,800 prisoners and guards.

A trio of top performers

While the TSI Prism system is a lucrative feather in ALAN's cap and will significantly boost the bottom line, ALAN is not a one-trick pony. The company has three distinct business segments: Technology Systems International, Arraid Inc., and Excel/Meridian Data Inc. This trio makes it a financial powerhouse.



Technology Systems International is the branch responsible for developing and marketing the TSI Prism product. Because of this, it will clearly be a powerful force in ALAN's future. But the other two divisions are no slouches either.

They are both in the data storage industry. Arraid Inc., acquired by Alanco in November 1998, has developed a worldwide reputation as a manufacturer of proprietary data storage solutions for upgrading "legacy" computer storage systems to state-of-the-art levels. It does so at a relatively low cost compared to the alternatives of replacement or extensive modifications. In today's age of rapidly advancing computer technology, Arraid should have plenty of business for many years to come. Its customers range from small printers to huge oil refineries.

The second arm of ALAN's data storage segment is Excel/Meridian Data. This division manufactures optical and hard disk drive products and provides custom storage solutions to a wide range of enterprises. One of its most popular products is DataShare x2, a CD-DVD server that allows users to have large numbers of CD's or DVD's online at any time. Excel/Meridian serves a broad group of Fortune 1,000 customers.

Not a stock for Buffett's portfolio, but solid fundamentals and prospects make it one for yours

Alanco's three divisions give it a very firm base from which to grow. While its current financials don't make it a stock that Warren Buffett would add to his portfolio, its future prospects look excellent.

For a start, earnings have been on a very positive trend. Over the past two years, ALAN has gone from a net loss of US$0.60 per share to a loss of only US$0.19. Once those figures bounce into positive territory, watch out. ALAN's price will be headed into uncharted waters.

Take a look at this two-year chart of ALAN's share price. You'll see that even without the profitable TSI Prism system, shares have made a steady climb. Imagine what will happen when the prison industry begins to gobble up this superior technology.

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All the indicators point to profitability soon, so now is a great time to buy. Once prisons across the US realize the value of the TSI Prism product, ALAN is going to trade at a much higher price. And with today's prison growth rates, that shouldn't take long at all.

Buy Alanco Technologies (ALAN:NASDAQ) under US$1.15 per share.

Andrew Snyder is a new recruit to the Taipan *investment team and spends his time at the group's and* Volume Spike Indicator *trading services, scouring the financial world for the best value investments.* ■

Income and appreciation: Actions for the Covered Call Trader

by Briton L. Ryle

I just read a lengthy, and predictably confusing, interpretation of IRS rules about income generated by the sale of covered calls. Now, in case you don't know, a call option is "covered" when it is sold against stock that's already owned.

For instance, let's say you bought 1,000 shares of Intel at US$27. You could immediately sell the right to buy your Intel stock at US$27.50 anytime between now and October for around US$1,300. That US$1,300 is yours to keep, no matter what. If Intel is above US$27.50 in October, you will automatically sell the stock for US$27.50. If it's below US$27.50, you'll keep both the stock and the US$1,300.

Now, it seems pretty obvious that if you sell that call option for US$1,300, you've reduced your risk on the stock from US$27 to US$25.70 (US$27,000 - US$1,300 = US$25,700). Not so, according to IRS legalese.

Legally speaking, the US$1,300 you earn by selling the covered call is income. And that's significant for two reasons. First, because it's income, the cash you generate from a covered call sale is not considered a short-term capital gain, and so will be subject to a more favorable tax rate.

Second, the fact that making money from covered calls is legally considered income should tell you a lot about the inherent risks. Basically, it appears that covered call writing is so reliable that the money you make is simply treated as income by the IRS.

The writing on the call

Why am I telling you this? Well, you may recall that over the last couple of months I've been introducing readers to my *Exponential Growth and Income Portfolio*. This portfolio is intended to offer you excellent long-term appreciation as well as income from covered calls. And it's time now to start selling some covered calls.

The two stocks I recommended were **Maytag (MYG:NYSE)** and **Symantec (SYMC:NASDAQ)**. Unfortunately, the Maytag recommendation got stopped out after a disappointing earnings report. Of course, the stock rebounded quickly back to my recommended entry point on the heels of a buyout offer.

If you're still holding Maytag, it's time to sell the October 15 call option, symbol MYGJC. You should be able to sell these call contracts for US$60 to US$70 each, and you can sell one for every 100 shares you own.

Now for Symantec. As you may know, Symantec finalized its acquisition of Veritas (VRTS:NASDAQ) on July 3. The stock is rallying on the news. You should use the strength to sell a round of covered calls. **Most likely you'll be selling the October 25 calls, symbol SYQJE, for around US$120 to US$140 per contract.**

You should have been able to buy Symantec between US$19 and US$20 a share. At the current price of US$22.47, you should be up around 10%. Clearly, taking in another US$1.20 a share improves your overall net on this position, regardless of what the IRS says.

Getting scientific

Now that the stock market is entering the heart of the summer months, conditions are ideal for covered call trading. And I'd like to introduce you to a leader in the medial field in a great position to take advantage.

When people think of advances in medical treatment, they often think of new procedures or new drugs. The advances that have been made in medical devices are often overlooked.

Too bad. Because advances in devices such as stents, catheters and other cutting-edge gadgets used for the delivery of drugs or direct treatment of diseases—ranging from cancer to heart disease—have as much to do with the great gains in the effectiveness of treatment as drugs and procedures do.

Over the last five years, medical device makers have become well known as investments. But some of the stocks haven't done that well. Both Medtronic (MDT:NYSE) and Guidant (GDT:NYSE) have been essentially flat for years. Johnson & Johnson (JNJ:NYSE) has doubled. But **Boston Scientific (BSX:NYSE)**, the leading manufacturer of stents in the US, has more than tripled.

At four times 2005 sales, a P/E of 23 and a PEG ratio below 1, Boston Scientific is also the cheapest of the medical devices stocks. It has the best gross margins at 77% and the second-best net margins at 27.99%. Boston Scientific also has the best revenue growth of the major medical device makers at 19%.

The five-year projected growth rate is 16.7%, tops in the industry. And Boston Scientific has a forward P/E of 13. That implies a 60% gain in the stock over the next year alone. In five years, who knows? This stock could be up another 300%. Quite frankly, I'd be surprised if it weren't.

Boston Scientific is already the number-one maker of stents in the US. Its Taxus stent has become the industry standard, generating US$2.1 billion in sales in 2004. And Boston Scientific hasn't entered the Japanese market yet.

Five-year growth rates are at 16%, and at the current P/E of 20 and forward P/E of 13, Boston Scientific could easily rise 50% to 75% over the next year. I rate it a strong buy under US$30 with a two-year price target of US$68.

But wait, there's more…

Buy the stock, then sell the calls. You should be able to sell the August 30 Boston Scientific call option, symbol BSXHF, for US$100 per contract. Remember, you can sell one call options contract for every 100 shares you own.

If you'd like more information on my covered call strategy, feel free to visit my website, www.moneyflowmatrix.com. ■

Picture-perfect profits in South Korea

By Alex Chinn

Not long ago, the digital camera was the top-selling consumer electronics item in the US. At the turn of the century, digital cameras were the hot commodity: practical, high-tech, and with rapidly declining prices.

Then came the age of digital convergence—the rallying cry for virtually every product in consumer electronics. Why make an MP3 player when you can make an MP3 player-GPS-toaster oven?

The spirit behind the movement is certainly well intentioned. Why not consolidate four different gizmos that I'd have to buy separately and stuff them into one product? Convergence is great for consumers, as it means they spend less on technology and enjoy smoother interaction between the various functions.

The idea of convergence is popping up everywhere. Digital cameras now sport MP3 players, PDA's have huge hard drives with media players and GPS, and then there are mobile phones.

A gadget "meet-and-greet" in your mobile phone

Mobile phones are the primary field for digital convergence. The real catalyst for mobile phone sales has been the number of extra features packed in. Mobile phones have the greatest penetration into everyday society.

On the low end, these features include basic games and low-megapixel digital cameras. On the high end there are extras like MP3 players, high-megapixel digital cameras, GPS and Bluetooth capability.

Cameras were the first major piece of consumer technology to be stuffed into a mobile phone. Now, even the most basic new phones usually feature some sort of camera. As a result, digital camera sales have fallen steeply and now the MP3 player is the top piece of consumer tech—until next year, when most phones will sport those, too.

So mobile phone companies have spurred sales by adding the functionality of a second gadget without bumping the price. I guarantee this is a trend that won't reverse itself anytime soon. But how can you profit from it? Nokia, Samsung, Motorola and LG are all locked in a fierce battle for market share.

Camera phones feeling chipper

The answer is simple. One company makes the semiconductors that run the camera part of the phone. This South Korean company supplies industry giants like Samsung and LG with its chips, allowing the camera to work smoothly with the mobile phone.

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Core Logic (048870:KOSDAQ) has been in the semiconductor business for years, but only recently hit the big time with its "Camera Application Processor." Once it became standard for mobile phones to include cameras, Core Logic's financials went into the black like Siberian midnight.

Sales leapt from 2.4 billion South Korean won (KRW) in 2002 to 41 billion KRW (US$40 million) in 2003. The company projected 2004 sales at 145 billion KRW, an increase of over 250%. After posting a net loss in 2002, Core Logic turned a profit of 43.7 billion KRW (US$43 million) last year.

Core Logic is also a bargain. It has a P/E ratio under 4 and it earns US$7 a share.

Mobile phone makers aren't going to ditch the camera function anytime soon. In fact, they're working hard to make the camera a premium feature again, with such add-ons as zoom lenses and video recording capabilities. Nearly every new mobile phone produced will incorporate a camera.

Due to the prevalence of camera phones and its relationship with several of the biggest mobile phone producers in the world, Core Logic should continue to see strong revenue growth. The Asian semiconductor industry as a whole is enjoying a resurgence of late, and the South Korean economy is robust.

Core Logic (048870:KOSDAQ) is a strong investment opportunity. Buy under 47,500 KRW (US$47.35) per share.

Because it trades in South Korea, here are a few brokers who should be able to help you buy shares in Core Logic:

GunnAllen Financial
Contact: Greg Long and Ron McCoy
Toll free: (800) 329-1984
Local: (321) 293-0280
Fax: (321) 293-0281
Email: glong@gunnallen.com or rmccoy@gunnallen.com
Web: www.gunnallen.com

Specializing in option and stock trading, Greg Long and Ron McCoy have over 25 years of experience, priding themselves on offering top-notch personalized service at rates you would expect only from a discount broker. Greg and Ron can help you follow and monitor all of your option recommendations, as well as help you analyze your current financial situation and tailor a program that suits your individual needs. In addition, Greg and Ron trade on all exchanges including the foreign markets and welcome international clients.

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Web: www.europac.net

Founded in 1980 and headquartered in Newport Beach, California, Euro Pacific is a full-service, NASD-registered broker/dealer that has historically been recognized for its expertise in foreign markets and securities. Through its direct relationships with countless foreign trading desks, the firm's clients are able to avoid the large spreads often imposed by domestic market makers of foreign securities, thereby substantially reducing overall transaction costs.

Charles Schwab & Company
Despite being the most expensive discounter, Charles Schwab has a lot to offer: 24-hour service, the ability to buy on many overseas exchanges, the best selection of the industry's best-performing, no-load mutual funds and excellent automated service. Schwab also has over 200 branches in major US cities.

Alex Chinn is an investment expert at the Red Zone Profits *trading service. You can discover more South Korean stocks that are making waves in Alex's special report on South Korea, available at www.emergingmarketinvestoronline.com.* ■

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Editor's Note: I hope you enjoyed this special bonus Taipan issue and the extra investment recommendations. If so, I urge you to complete the savings certificate below and lock in our lowest subscription rates. This will ensure that you'll never miss a single monthly Taipan issue or any of the special bonuses we send from time to time. —Martin Denholm