



# ALMANAC INVESTOR NEWSLETTER

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## 2004 Forecast on Track for Further Gains Election Conclusion Shifts Market Focus To Seasonal, Fundamental and Technical Forces

By Jeffrey A. Hirsch

Everybody, especially the stock market, is ecstatic that the US Presidential Election went off without a hitch, ending uneventfully with a relatively fast and decisive result. Wall Street responded by rallying a solid 5% across the board since Election Day. From their October lows the Dow and S&P 500 are up about 8%, NASDAQ nearly 10%. All three widely followed indices are now positive for the year, lead by the S&P 500's 6.5% gain. NASDAQ has tacked on 4.1% for 2004 followed by the Dow's miserly 0.8% advance.

Conditions are such that the stock market is poised to hit more new recovery highs (the S&P 500 just has) and encroach on our 2004 Annual

Forecast levels, projected on December 17, 2003, of Dow 11700, S&P 1200 and NASDAQ 2500 — if not by year-end 2004, then by early 2005. Stock prices should move steadily higher over the next several months, perhaps with a few gyrations.

### Beating the Election Odds

In his reelection victory President Bush defied the historical odds. He is the first president ever to win reelection after losing the popular vote the first time (page 78, 2004 Almanac). His reelection is the second time since 1952 the incumbent party has held the White House after the S&P 500 was down during the first four months of the year (page 42, 2004 Almanac). Five of the six previous

first four-month losses preceded an incumbent party ouster.

Our *Stock Trader's Almanac* Post-Convention-to-Election Day Forecaster (page 80, 2004 Almanac) was flouted as Mr. Bush won despite a 2% drop in the Dow after the Republican Convention through Election Day. He also beat the *Almanac Investor* October Litmus test by being the first president since 1904 to be reelected when the Dow was off -0.5% or more for the month of October just prior to the election.

But President Bush did have one major factor on his side (aside from the shortcomings of the Democratic challenger): two wars in progress, Iraq and the War on Terror. As we pointed out in the *2004 Stock Trader's* (continued on page 3)

## Turnaround Chip Equipment Stock Has Major Potential

By Robert Cardwell

Patience is often a virtue in investing. It can involve hanging on to a good situation through temporary setbacks. Equally important, however, is waiting for the right time to buy in the first place. That time may come, for example, when the product cycle is turning favorable or serious problems have been overcome — while earlier investors are discouraged and still bailing out.

**Data I/O** (DAIO) has been restructuring, cost cutting and repositioning for the last five years. Despite write-offs, the company has been at least marginally profitable for the last eight quarters, and now finally may be positioned to start growing the bottom line.

That's what we hear from our friend and sometime contributor to these pages, Adam Hutt, who says almost every broker and money man- (continued on page 6)

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11/17/04: NASDAQ 2099.68 • S&P 1181.94 • Dow 10549.57 • Russell 2K 622.97 • NYSE 7013.46 • Value Line Arith 1715.10

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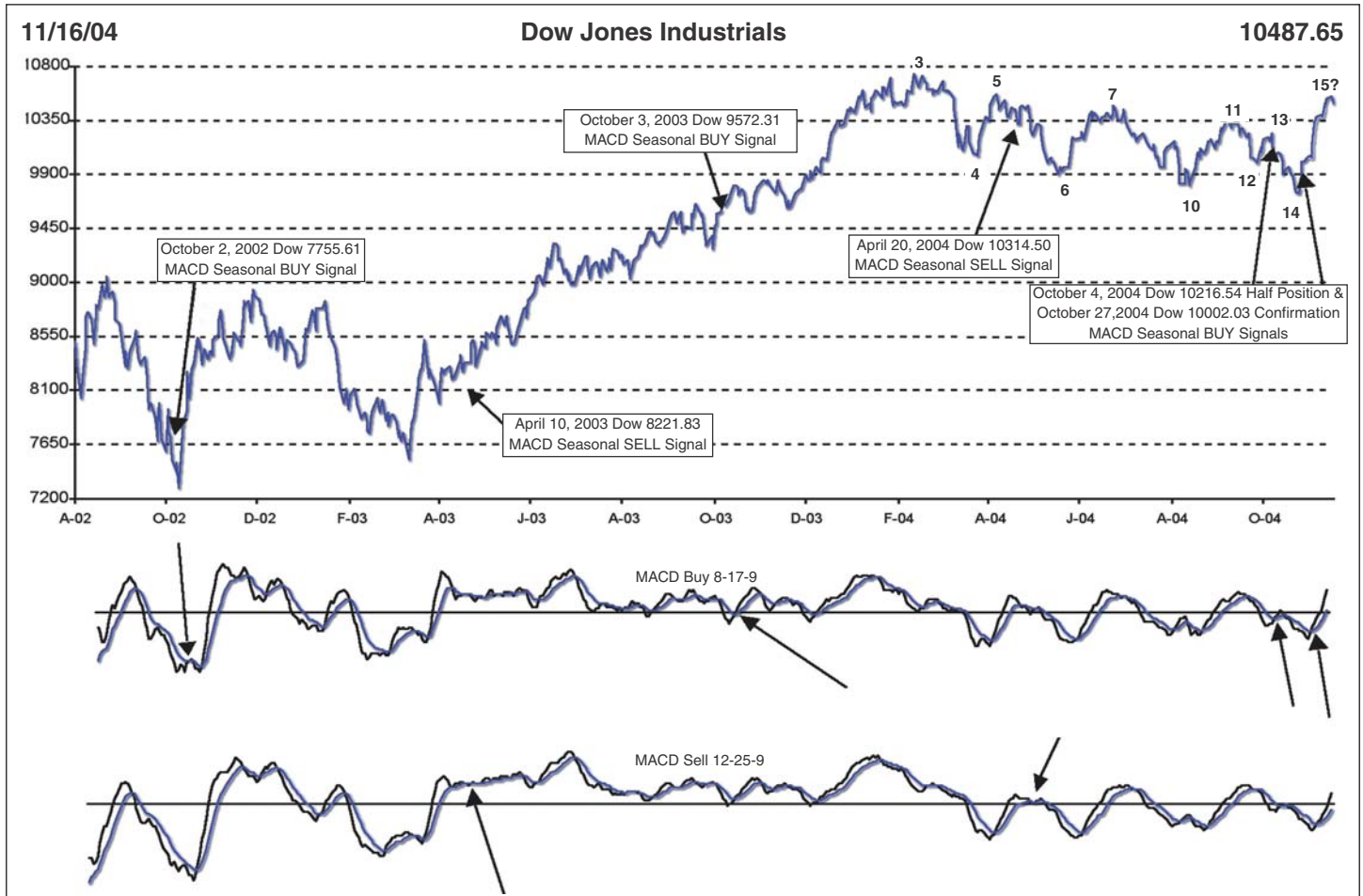
# Pulse of the Market

Week Ending	DJIA	Net Change For Week	Net Change On Fri**	Net Change Next Mon*	S&P 500	NASDAQ	NYSE Advances	NYSE Declines	NYSE New Highs	NYSE New Lows	CBOE Put/Call Ratio	90-Day Treas. Rate	Moody's AAA Rate
2-Jul-04	10282.83	-89.01	-51.33	-63.49	1125.38	2006.66	2205	1275	354	80	0.68	1.30	5.92
9-Jul-04	10213.22	-69.61	+41.66	+25.00	1112.81	1946.33	1676	1792	191	77	0.85	1.28	5.83
16-Jul-04	10139.78	-73.44	-23.38	-45.72	1101.39	1883.15	1999	1481	242	109	0.77	1.32	5.81
23-Jul-04	9962.22	-177.56	-88.11	-0.30	1086.20	1849.09	1047	2427	208	153	0.62	1.34	5.78
30-Jul-04	10139.71	+177.49	+10.47	+39.45	1101.72	1887.36	2300	1164	114	173	0.58	1.43	5.87
6-Aug-04	9815.33	-324.38	-147.70	-0.67	1063.97	1776.89	1440	2056	143	179	0.81	1.45	5.74
13-Aug-04	9825.35	+10.02	+10.76	+129.20	1064.80	1757.22	1853	1596	65	222	0.83	1.44	5.65
20-Aug-04	10110.14	+284.79	+69.32	-37.09	1098.35	1838.02	2906	579	154	68	0.73	1.46	5.61
27-Aug-04	10195.01	+84.87	+21.60	-72.49	1107.77	1862.09	2298	1177	206	39	0.67	1.52	5.63
3-Sep-04	10260.20	+65.19	-30.08	+82.59	1113.63	1844.48	2390	1077	314	37	0.71	1.58	5.55
10-Sep-04	10313.07	+52.87	+23.97	+1.69	1123.92	1894.31	2383	1089	364	22	0.77	1.63	5.54
17-Sep-04	10284.46	-28.61	+39.37	-79.57	1128.55	1910.09	2237	1216	328	31	0.62	1.65	5.48
24-Sep-04	10047.24	-237.22	+8.34	-58.70	1110.11	1879.48	1591	1874	333	53	0.76	1.69	5.37
1-Oct-04	10192.65	+145.41	+112.38	+23.89	1131.50	1942.20	2435	1044	453	106	0.75	1.69	5.42
8-Oct-04	10055.20	-137.45	-70.20	+26.77	1122.14	1919.97	1855	1623	609	47	0.71	1.68	5.54
15-Oct-04	9933.38	-121.82	+38.93	+22.94	1108.20	1911.50	1525	1940	237	119	0.79	1.70	5.46
22-Oct-04	9757.81	-175.57	-107.95	-7.82	1095.74	1915.14	1679	1800	283	150	0.77	1.80	5.43
29-Oct-04	10027.47	+269.66	+22.93	+26.95	1130.20	1974.99	2554	919	395	114	0.59	1.87	5.42
5-Nov-04	10387.54	+360.07	+72.78	+3.77	1166.17	2038.94	2539	958	676	35	0.50	1.95	5.50
12-Nov-04	10539.01	+151.47	+69.17	+11.23	1184.17	2085.34	2486	1003	672	35	0.56	2.04	5.59

**Bold Red: Down Friday, Down Monday**

\* On Monday holidays, the following Tuesday is included in the Monday figure

\*\* On Friday holidays, the preceding Thursday is included in the Friday figure



## 2004 Forecast on Track

(continued from page 1)

*Almanac* on page 94, "Voters usually 'rally around the flag' when wars are in progress or threatening." I reminded subscribers nearly a year ago in the *Almanac Investor* 2004 Forecast that, "the situation in Iraq looks likely to continue so that a 'wartime' president is up for reelection."

Madison was reelected during the War of 1812; Lincoln in the midst of the Civil War in 1864; Wilson prior to WWI in 1916; Roosevelt in 1940 before America entered WWII and 1944 during WWII; and Nixon won his second term in 1972 during Vietnam. In this month's Proving Grounds, on pages 8 and 9, J. Taylor Brown begins the first part of our three-part series comparing **market behavior during wartime and peacetime**.

Last month Mr. Brown's research projected a mild rally following an incumbent Republican Party win. Now that the market has responded in kind, what does the future hold? There are two other election year patterns worth mentioning. Since 1900 the Dow has averaged a 15.8% gain during election years the sixteen times incumbent parties retained the White House. Applied to 2003 closing figures, that would put the Dow over 12000, the S&P 500 near 1300 and NASDAQ over 2300. Also, the S&P has only had one loss (during undecided 2000) the last seven months of election years since 1952 and averaged a 7.1% gain. Adding that to May 2004 closes would give us approximately Dow 10912, S&P 1200 and NASDAQ 2128.

## Pulse of the Market

This early fourth quarter rally has pushed the S&P, Dow and NASDAQ to breakout above their June highs, creating the first higher high since January/February 2004. On top of that the S&P 500 hit a 39-month high. NASDAQ also cleared its April 2004 high while the Dow still lags below, only clearing its June 2004 high-water mark. This breaks the downtrend line

across the board and all three are above their 200-day moving averages.

Volume has also improved but has yet to really blast out. We'd like to see 2 billion shares on the NYSE (2.5 billion on NASDAQ) on a decisive 1-2% up day. When that does happen and is followed a few days later by similar action we will likely be on our way to substantially higher levels and to that top I have been alluding to.

Breadth has been steadily positive over the past three weeks but not overpowering. Weekly NYSE new highs have outpaced new lows by better than a 2-to-1 margin since the end of October ①. The weekly NYSE new high/new low comparison has also been strong with new highs topping 670 and new lows at 35 the past two weeks ②. These are encouraging signs yet there is plenty of room for improvement, which the market will need in order to make any further upside progress. We should see this once the yearend buying fervor kicks in.

Three weeks of solid gains underscore the market's upward bias. The fact that only one Down Friday/Down Monday ③ has occurred since the first week of August, indicating institutions and professionals are not running for the exits, is another promising development. That Down Friday/Down Monday also coincided with recent October low — the launching pad for the latest rally.

Interest Rates continue to tick up ④ at the Fed's measured pace, but long rates remain lower than they were six months to a year ago. At this stage any change in the Fed's stance could be construed as worry that the economy is slowing.

Put/call is a bit worrisome, though, with its complacent readings in the 0.50s ⑤ the past three weeks. Many of the other sentiment readings indicate excessive complacency as well. *Investors Intelligence* % Investment Advisors Bullish is at 58.1% and Bearish is 22.6%. *American Association of Individual Investors* Bullish is 62.5% and Bearish 21.6% and *Market*

*Vane* Bullish Consensus is 70%. However, these indicators are much more reliable at bottoms than tops, and can run at these low levels for extended periods of time without the market suffering a serious decline.

The other thing I'm concerned about in the shortrun is the seasonality-fourth-quarter-rally bandwagon every analyst, strategist and commentator has jumped on. As is the case with many of the seasonalities published over the years in the *Stock Trader's Almanac*, when everyone is talking about it and expecting it, the seasonality often shifts or changes. Now that bullish seasonality is all the buzz on the Street, it will probably help create those reversals indicated in points 15-20 on the Domed House pattern (in the accompanying chart Basic Model: 3 Peaks and Domed House) before we move much higher.

It's no secret that one of the main drivers of this latest market surge has been the softness in crude oil prices. As mentioned last issue oil and related shares sold off in advance. Inflation is now back on everyone's radar screen with this week's PPI number continuing its uptrend, indicating producer costs may weigh on corporate profits down the line.

## MACD Confirmation

The broad averages may be up modestly but many issues, including our stock and ETF portfolios, are doing much better. On October 27 a MACD Seasonal Buy Signal confirmation was emailed to subscribers. We had issued earlier signals on October 4 and 5 but advised to only take half positions as October is prone to pullbacks, particularly just prior to Presidential Elections. Last issue I also suggested taking advantage of the late-October-pre-Election dip we were experiencing. Both signals were fortuitous and got us into our seasonal trades well ahead of the post-election rally. Our ETF trades on these signals in the DIA, SPY and QQQ are up about 5% on average so far.

(continued on page 4)

## 2004 Forecast on Track

(continued from page 3)

Our more aggressive posture is also paying off with the *Almanac Investor* Stock and ETF Portfolios performing quite well. A couple of the ETF positions are approaching our target and automatic sell prices and some of stocks are taking off. For example **Sirius** (SIRI) and **XM** (XMSR) are at new subsequent highs and the **Internet Infrastructure HOLDRS** (IIH) is nearing our auto sell price. There has also been one correction. We have inadvertently omitted the April 2004 *Almanac Investor* recommendation of the **Utilities HOLDRS** (UTH) from the portfolio. This came to our attention as the Utility seasonality ends in December. The UTH is up 20% and we are selling it now.

## 2004 Forecast on Track

Hark back to December 17, 2003 when we forecast gains for 2004: "Election year forces plus an improving economy lead us to our bullish outlook for the Dow to tack on an additional 10-20% and top out near the year 2000 highs of 11,700. From current levels that's about 15%. The S&P and the NASDAQ won't be able to reach their 2000 highs. The S&P will keep pace with the Dow for the most part and get into the 1200 area. NASDAQ will surpass these gains and likely pass 2500 and encroach 3000..."

3000 is definitely not going to be reached on the NASDAQ by yearend. 2500 is a stretch but not impossible, and it is plausible by the end of this bull-run in early 2005. Dow 11700, just 10% or so above current levels is not unimaginable — and we should at least get close by New Year's. S&P 1200, a mere 2% from current levels, is all but a done deal.

## December Almanac

December is the top S&P month since 1950, up 41 of 54 years with an average gain of 1.7%, and it ranks second on the Dow (bested by April)

over the same period, up 39 times, averaging a 1.8% rise. Since the NASDAQ Composite was created in 1971 December plays second fiddle to January on the NAS as well as the S&P 500, falling to third for the Dow behind April and January. Performance is similar to that of the longer period with NASDAQ Decembers up 20 of the 33 years for an average 2.1% advance. 2002 was the worst December since 1931 with the Dow and S&P down over 6% and NASDAQ losing a whopping 9.7%.

Market trading in December is holiday inspired and fueled by a buying bias throughout the month on the part of NYSE members and brokerage houses. However, the first part of the month tends to exhibit weakness as tax-loss selling and yearend portfolio restructuring crescendos. The month is laden with market seasonality and important events. The next FOMC meeting is on the 14th and another quarter-point hike is more than likely. Other economic releases and seasonalities are dutifully noted in the Strategy Calendar on page 16.

2003 broke a 3-year Dow losing streak for the first trading day of the December. Otherwise the first three days of the month are quite strong. They do not get official "bullish day status" as the S&P 500 has not been up 60% of the time over the last 21 years — but the S&P is up 57% of the time on all three days. Additionally, the Dow marks a "bullish" day on the 2nd and NASDAQ is "bullish" the first three days.

Official bullish days fall on December 16, 22, 23, 28, 29 and 30. Second-half-of-the-month strength and the Santa Claus Rally can be seen in full effect. Monday before **Triple Witching** Expiration Day has experienced Dow gains in 8 of the last 13 years while the Dow has advanced 10 of the last 13 on Triple Witching Friday. December expiration is the most bullish expiration period of all. The Dow has been up 11 of the last 13

Triple Witching Weeks and 10 of the last 13 weeks after (page 76, 2005 *Almanac*).

We have shown that the "**January Effect**" of small cap stocks outperforming big cap stocks in the month of January now starts in mid-December. In fact, the chart on page 114 of the *Almanac* illustrates this quite clearly. Also noticeable are small stock moves in late October and late November. Any early month weakness in small stocks — such as our *Almanac Investor* Stock Portfolio — can be used to add to existing positions or make new ones. Note that the bulk of this move is complete by mid-January but runs through early March. Any outsized gains can be taken without prejudice — especially by implementing our standard trading policy of selling half on a double to take your initial investment off the table.

The **Santa Claus Rally** is scheduled to begin on December 23. We normally experience this short, sweet rally from the last five trading days of the year through the first two of the New Year. The S&P 500 has averaged a 1.7% gain during the Santa Claus Rally since 1969. It is important to remember, though, that when this reliable seasonality has failed to materialize, it has often been a harbinger of bear markets or sizeable corrections in the coming year.

December 23 is also the last trading day before Christmas, when the Dow has been up 8 of the last 13 years. But the last three years (and five of the last seven), it has exhibited weakness on all three main indices, so it may provide a decent entry point for the yearend romp. The first trading day after Christmas has been much stronger, up 11 of the last 13 years on the Dow.

NASDAQ had a stellar record of being up the last trading day of the year 29 years in a row, but it has been down the last 4 in a row. Less bullishness the last trading day

of the year is due to last-minute portfolio restructuring.

We will be serving up our *Almanac Investor* **Free Lunch Menu** of year-end bargain stocks before the market opens on Wednesday, December 29. This Free Lunch Menu is emailed to all subscribers who have an email address on file. (This is an excellent time to ensure we have your up-to-date email address in our database.) The candidates will be hand-selected from the stocks making new 52-week lows the day before. Preferred stocks, closed-end funds, splits and new issues are eliminated. When there are a huge number of new lows, stocks down the most are selected.

Tax-loss selling tends to push losing stocks down to bargain levels near yearend. This bottom-fishing strategy used to consist only of NYSE stocks selling at their lows on December 15. These stocks usually outperformed the market by February 15 in the following year. Tax selling in recent years seems to be continuing down to the last few days of the year, so we altered the strategy the last five years to make our selections from stocks making new lows on the fourth to last trading day of the year — the last settlement day of the year.

The strategy was refined further the last three years as few NYSE stocks were left after our screens. We have added selections from NASDAQ, AMEX and the OTC Bulletin Board. These stocks tend to start giving back their gains in January. We have advised subscribers to sell in mid-January or when quick gains materialize.

This Free Lunch strategy is only an extremely short-term strategy reserved for the nimblest of traders. The object is to buy bargain stocks near their 52-week lows and sell any quick, generous gains, as the stocks can often be real dogs.

It's a quick trade so do not get attached to these stocks. When they pop, sell them. We're just playing the

dead cat bounce. If you get a double sell at least half, or use trailing stops so if they continue to rise you stay in, if not, you're out. This Free Lunch strategy has performed better after market corrections and when there are more new lows at year-end.

Page 112 of the 2005 Almanac and page 5 of the February 2004 *Almanac Investor* detail the full record, strategy and last year's menu. This year we will also be looking at what bargains the market has to offer mid-month and will share our findings next issue. Perhaps we'll have two Free Lunches this year.

### Three Peaks and Domed House Status

Compare the Basic Model 3 Peaks and Domed House chart on this page with the Dow Jones Industrials chart on page 2 and you'll see that my count of hitting point 15 is not hard to believe. If that is the case, and I believe it is, we are about to begin a series of short-term reversals from points 16 through 20 before heading higher to complete the Domed House top at point 23.

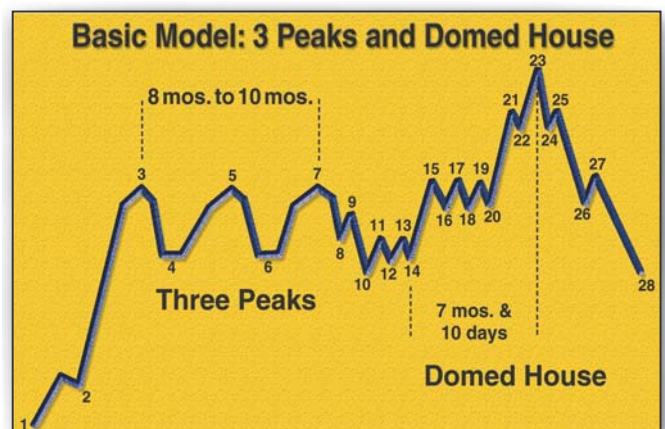
Keep in mind that though this particular pattern has been tracking the model closely so far, it may not necessarily continue to do so and points 15 to 23 may not be as clear. The table in last month's issue measured all the Three Peaks and Domed House patterns that occurred at major tops since 1916. By those historical measures the current pattern is quite close to the average. This would put a top in somewhere between January and June 2005 and Dow 11600 and 13600. My feeling is that it will occur in the middle of the time frame and at the lower end of the price range.

### 2005 Annual Forecast

Our outlook for 2005 will be detailed in next issue's 2005 Annual Forecast. Decennial pattern forces of no-losing-fifth-years-of-decades will be weighed against the propensity for post-election years to be less sanguine for the stock market. The extended nature of this bull market that continues to plot out the ominous Three Peaks and Domed House pattern will also be considered, not too mention seasonality, monetary policy, market fundamentals, technical indications, et al.

As most economists are forecasting that growth will not outpace inflation in 2005, and interest rates are ratcheting, up we will likely see a top over the next three to six months in line with the Domed House. This top will likely hold through the midterm elections in 2006. This is not to say that we will not get at least one more tradable rally in the interim. This current inflation fear is healthy for the market. Stock prices have jumped a bit ahead of themselves and this ensuing pullback and series of reversals (up to five) will likely build support for the final push to the next major top.

The somewhat oversold rally and renewed inflation fears have put the market in pullback mode as we go to press. Use weakness to add to positions, but cautiously, in market leading stocks and industries as well as special undervalued situations and seasonal sector plays, such as our *Almanac Investor* stocks and ETFs, heeding the Current Advice on page 16 and elsewhere in this month's issue.



## Turnaround Chip Equipment Stock Has Major Potential

(continued from page 1)

ager he knows has at some point at least looked at DAIO and given up on it as a perennial loser. Adam has taken a contrary stance and backed his conviction by accumulating a substantial position for his hedge fund. While the stock has scored a nice recovery from the low around 2 made in August, it's still historically depressed and cheap in relation to similar situations.

Data I/O is a leader in its particular niche of the electronics capital equipment market. It makes gear for programming semiconductors, from simple utilitarian chips to the solid state memory devices that are important in a growing array of consumer products.

Where we are now in the semiconductor cycle is a matter of some dispute, with chip companies and their customers reporting mixed results and outlooks. Recent strength in the chip indexes (including SOXX) may be in part a reaction to the market bounce, but also supports fundamental data that on balance point to continued growth. In any case, Data I/O products address segments of the chip market that should achieve superior growth.

### Chips Get Flexible

One of the more important developments in the advance of electronics was the advent of programmable semiconductors. Chips can be designed from the start to do just one thing or they can be designed to have programming inserted at any stage—from manufacturing, to placement in the ultimate product, or even after the product is in use by the customer.

It's cheapest to design all the instructions into a chip on the drawing board — but only if the device is likely to be produced in quantity over a long lifespan. Programmable chips allow a basic design to be used to per-

form somewhat different functions, to be upgraded when products change, and to take on proprietary aspects at a customer's request. The proliferation of consumer electronics, together with short life cycles, has made programmable chips indispensable.

For example, the wireless phone market, with its wide and constantly changing array of features, is a huge and growing market. The competitive advantages in telephone handsets (and this is a very competitive market) lie almost entirely in the "firmware" built into the set. This means the operating instructions or software is mostly contained in programmable chips. The same thing goes for electronic games and other products.

Such firmware allows companies to constantly add features simply by writing new code, and to build multiple models with the same basic hardware and on the same production line. One new wrinkle is to embed an ID number into each chip in a production run. This enables a manufacturer to specifically identify each product in which the chip is used, for service, warranty or security purposes.

DAIO serves its customers by offering a flexible array of programming equipment that can seamlessly move their intellectual property up and down the supply chain as desired — that is, code can be inserted at the semiconductor fab, at the customer's plant, or at a contract manufacturer's facility. Data I/O emphasizes optimizing solutions based on a customer's

device, process and business needs. Management has decided that its best course is to produce somewhat specialized equipment that best suits the most lucrative and fastest growing segments of the market rather than trying to produce global but more expensive and less flexible machines.

A central software platform, TaskLink, provides a common intuitive user interface and enhances the customer's programming. This platform also supports DAIO's connected strategy, allowing customers to connect engineering to manufacturing.

### Product Offerings

Products include the ProLINE-RoadRunner, for rapid programming of flash devices. These are the increasingly powerful and popular devices that among other things allow small portable appliances to have functions and memory capacity previously available only in PCs. The RoadRunner mounts onto the assembly machine in the production line and delivers programmed parts in a just-in-time fashion. This product sells for up to \$135,000 depending on programming capacity.

For customers who need still more capacity, the Infinity product uses multiple ProLine-RoadRunners to offer extremely high throughput. The PS300 family of solutions offers highly flexible off-line batch programming. These can program flash devices and other components such as microcontrollers. The PS300 line is designed for extremely fast changeovers, allowing customers to rapidly respond to changing demand.

These machines can also be optimized for a variety of jobs. The ProMaster systems offer cost-effective, high-yield processing for smaller capacity memory, microcontroller and logic devices. All the products build on a connected strategy and common architecture. Prices for the off-line systems range from \$50,000 to \$500,000, with average configurations costing between \$200,000 and \$300,000.

**Data I/O Corp.**  
**DAIO — NASDAQ — 3.14**

**Buy Limit: 3.25**

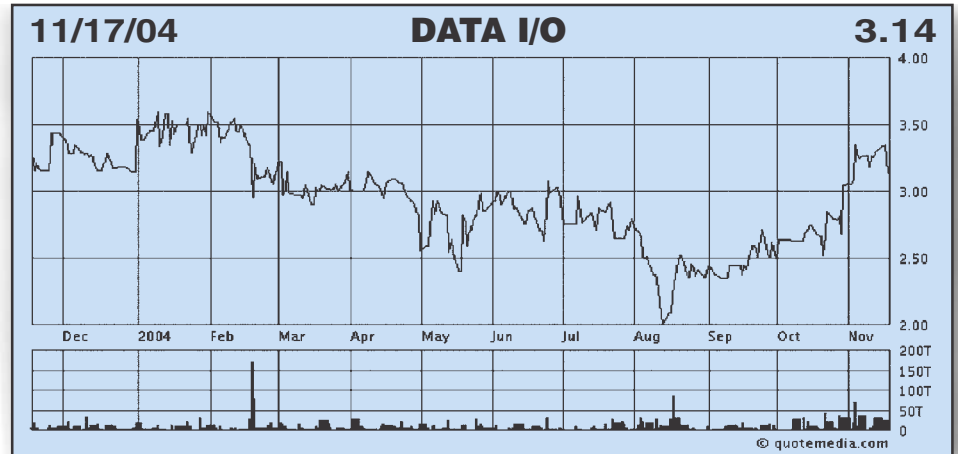
**10525 Willows Rd. N.E.**  
**Redwood WA 98052**  
**425-881-6444**  
**425-882-1043**  
**www.dataio.com**

**CEO: Frederick Hume**  
**Shares: 8 million**  
**Market Value: \$25.1 million**

All of the above products feature automated programming. DAIO also produces a substantial line of non-automated systems that are used for low-volume manufacturing, designing and producing prototypes, and critical applications. The UniSite and 3980 xpi programming systems offer the highest levels of signal integrity and are used for military, aerospace and telecommunications applications. Prices range from \$7,000 to \$25,000.

Still other products such as the Sprint family and the new FlashPAK are mostly cheaper and aimed at users with less demanding specifications. In the last month the company has introduced several important product enhancements, including an in-system programming (ISP) suite. This will enable customers to change programming while a system is on line, resulting in even more flexibility. ISP is predominantly used in the automotive microcontroller industry so far.

Clearly, despite the move to emphasize more profitable products, Data I/O has a broad line and wide customer appeal. The company has sold to more than 2,500 customers in the programming equipment market, demonstrating the breadth of the market. Yet it's not a large market — management estimates that until three years ago it amounted to some \$150 million, of which DAIO controlled 20% to 25%. Since then the total has



shrunk considerably but the company increased its market share.

Our premise is that with the proliferation of cell phones, PDAs, portable music devices, digital cameras, electronic games and other products requiring flash memory and other programmable integrated circuits, the need for programming equipment will rebound. As it does, Data I/O should be an even bigger fish in this pond.

### Finances

In the third quarter, sales climbed 12.6% to \$7.8 million. The company earned a penny a share, which was flat versus the year-ago period. But that is after 5 cents a share in restructuring charges in the recent period. DAIO has no debt and about 80 cents a share in cash.

Adam Hutt is projecting potential annual revenues of \$50 million (noting that sales of \$60 million were achieved in 1996 and that a small fraction of the ISP market could add substantially to revenue). Should the stock trade at two times such sales (versus three times for the typical chip stock) we'd see a price of 12.50.

While that is highly conditional, doubling our money in DAIO would require only about half of that scenario. The stock is thinly traded and volatile. There has been one large seller, whose liquidation may help us accumulate. **Try to buy under our 3.25 buy limit, using limit orders.**

*Robert Cardwell is Director of Equity Research at the Hirsch Organization.*

## Portfolio Updates — Most Stocks Are Marching To the Same Bullish Drummer

By Robert Cardwell

Some three-quarters of our stocks are up in the last four weeks, which is no surprise considering the market rally during the same period. There were only a few major movers in our portfolio, reflecting at least in part a temporary market shift away from secondary stocks, but a number of our picks reached new highs. The S&P 500 (consisting of blue chip heavyweights) has been the standout among the aver-

ages lately and is the only major gauge to make a decisive new high.

In December, with seasonality favoring small stocks, we should see more fireworks among our recommendations. The market is overbought at this writing and could correct, but any dips are buying opportunities for what should be a profitable December and January.

Oil is in a corrective mode, but the

metals sprang to life as our currency slid again. The dollar sagged to an all-time low against the euro while gold climbed to a 14-year high. As we have tried to emphasize, natural resources are in a long-term bull cycle based on fundamentals. At the same time, they are a hedge against something most investors have not yet fully appreciated — our looming fiscal crisis and our sick dollar.

*(continued on page 12)*

## Proving Grounds: War and Peace

By J. Taylor Brown  
& Jeffrey A. Hirsch

With the presidential election over, it is time to turn our attention to another exogenous (and understudied) event that historically has held sway over the market — War.

While it is less consistent than the election cycle, the cycle of war and peace has developed into a pre-

dictable pattern. It was recognition of the post-war bullishness that led Yale Hirsch to make his now famous call of Dow 3420 by 1990 in April 1976, based on 500% moves following wartime inflations. Dow 3420 was a 500% move from the 1974 intraday low of 570. In the summer of 1990 the S&P 500 realized this 500% gain, the Dow came up short, reaching only 3024 (not a typo). Two years later the Dow reached 3420 intraday in May

1992. That is tantamount to predicting Dow 43068 by 2018 using the 2002 intraday low of 7178. And, with patterns and cycles compressing, could we see Dow 43K even sooner?

Over the next three issues of the *Almanac Investor*, the Proving Grounds will be dedicated to discovering and documenting the anatomy as well as the nuances of this important cycle. This article is dedicated to background statistics. Next month we will delve deeply into the historical performance of markets during wartime. And finally, in the February issue, the Proving Grounds will look into the markets during peacetime and perhaps venture a fearless forecast.

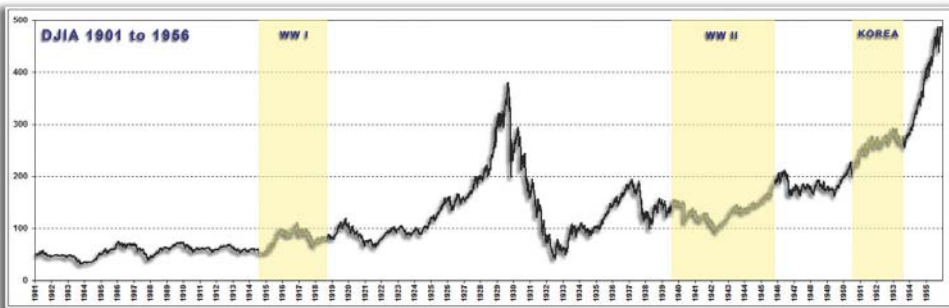
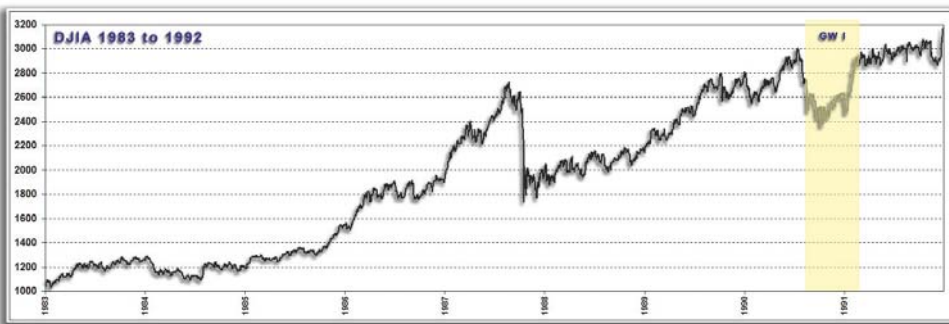
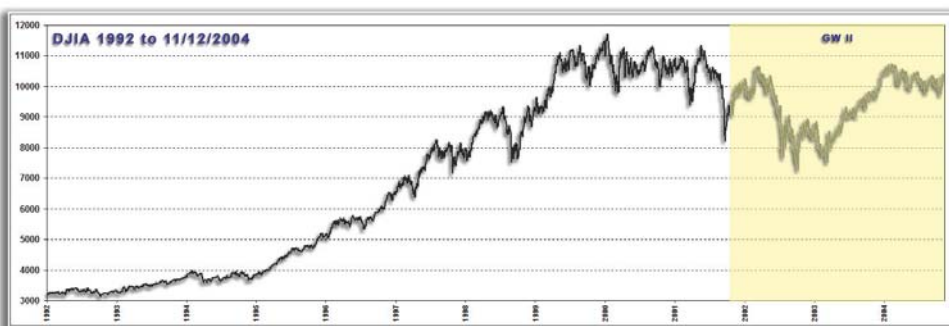
### Methodology

After much debate at The Hirsch Organization, we arrived at the following conclusions and rules for the scope of this study. For World War I, the markets were closed from July 31, 1914 until December 12th. Much of the escalation of the war occurred during this time, so we opted to use the close from July 30, 1914. The armistice that ended WWI was signed Sunday, November 11, 1918; so for the purpose of this study, the close from November 9, 1918 was used.

German tanks rolled into Poland on September 1, 1939, signifying the start of World War II. The end of WWII for this study is September 2, 1945, when the Japanese surrendered to the United States.

Korea was fairly simple. North Korea invaded South Korea on June 25, 1950 and the armistice that ended the Korean War was signed on July 27, 1953.

Vietnam was a little trickier. No declaration of War was ever asked of, or granted, by Congress for the Vietnam “conflict”. Technically, the US was involved in conflict there starting in 1950. There were various levels of escalation throughout the Eisen-





hower, Kennedy and Johnson administrations. Given the lack of an actual declaration of war, and not wanting to skew the study by using the original presence of troops, August 7, 1964 was used: the approval of the Gulf of Tonkin Resolution. The War officially came to an end on January 27, 1973 with the signing of the Paris Peace Accords.

The first Gulf War started on August 2, 1990 when Iraq invaded Kuwait and ended on February 27, 1991 when President Bush (41) declared a cease fire.

The current situation is not cut and dried. There were three possible dates to use for the onset of the war on terror (we prefer to call this Gulf War II seeing as terror is a tactic not an enemy). September 11, 2001 could be

used for obvious reasons, but we chose not to. March 20, 2003; the date that the air bombardment of Iraq started is equally justifiable, but we did not use this date either. Instead, we opted to use a date in-between these; October 7, 2001 — the date when we invaded Afghanistan.

The periods are broken out into **War Time** and **Peace Time** and color coded as much as possible. The data recorded is self explanatory for the most part. **Average annual return** is calculated by dividing the total return from the start of the period to the end of the period by the length of the period. For **War Time** the **% change peace high to war low** and **% change peace low to war high** is from the peace period before the war. For example, for Korea, the peace low

and high is taken from the period after WWII. The same is true for the **% change war low to peace high** and **% change war high to peace low**. For example, for **Peace Time** after WWII, the % change is from low made during WWII to the ensuing high during the peace after the war.

## Fearless Projections

These are not our prognostications! The numbers for the **Projected Gulf War II** and after **Projected Gulf War II** are simple extrapolations utilizing the **War Time Stats** and **Peace Time Stats** from current levels in the Dow. This is the basis and starting point for the deep analysis we will be conducting over the next few months. As always, your feedback is welcome.

### DOW PERFORMANCE DURING WARTIME

	<u>WW I</u>	<u>WW II</u>	<u>Korea</u>	<u>Vietnam</u>	<u>Gulf War I</u>	<u>War Time Stats</u>	<u>Projected Gulf War II</u>		
Dow at the Start	52.32	135.25	224.35	829.16	2864.60	<b>Average % Chg during War</b>	27.7%	Dow at the Start GW II	9,119.77
Dow at the End	88.06	174.29	268.46	1003.54	2889.11	<b>Average Length of War</b>	4y178d	Projected Dow at End	11650.02
% Chg at End of War	68.3%	28.9%	19.7%	21.0%	0.9%	<b>Average Annual % Change</b>	6.2%	High to Date	10737.70
Duration	4y104d	6y3d	3y33d	8y175d	209 Days	<b>Average % Chg High</b>	39.9%	Projected High	12760.98
Average Annual % Change	16.0%	4.8%	6.4%	2.5%	1.5%	<b>Average % Chg at Low</b>	-16.9%	Low to Date	7286.27
High	110.15	174.29	293.79	1051.70	2934.65	<b>Average % Chg Low to High</b>	67.5%	Projected Low	7576.71
% Chg at High	110.5%	28.9%	31.0%	26.8%	2.4%	<b>Avg % Chg Peace Hi - War Lo</b>	-34.0%		
Low	52.32	92.92	197.46	631.16	2365.10	<b>Avg % Chg Peace Lo - War Hi</b>	281.1%		
% Chg at Low	0.0%	-31.3%	-12.0%	-23.9%	-17.4%				
% Chg Low to High	110.5%	87.6%	48.8%	66.6%	24.1%				
% Chg Peace Hi - War Lo	NA	-75.6%	-13.5%	-25.9%	-21.2%				
% Chg Peace Lo -War Hi	NA	322.8%	81.8%	311.6%	408.1%				

### DOW PERFORMANCE DURING PEACETIME AFTER

	<u>WW I</u>	<u>WW II</u>	<u>Korea</u>	<u>Vietnam</u>	<u>Gulf War I</u>	<u>Peace Time Stats</u>	<u>Projected Gulf War II</u>		
Dow at the Start	88.06	174.29	268.46	1003.54	2889.11	<b>Average % Chg during Peace</b>	139.3%	Projected Dow at Start	11650.02
Dow at the End	135.25	224.35	829.16	2864.60	9119.77	<b>Average Length of Peace</b>	12y351d	Projected Dow at End	27883.32
% Chg at End of Peace	53.6%	28.7%	213.3%	185.4%	215.7%	<b>Average Annual % Change</b>	11.8%	Projected High	36946.68
Duration Years/Days	20y338d	4y297d	10y379d	17y191d	10y225d	<b>Average % Chg at High</b>	217.1%	Projected Low	9112.36
Average Annual % Change	2.6%	6.0%	19.3%	10.6%	20.3%	<b>Average % Chg at Low</b>	-21.8%		
High	381.17	228.38	851.35	2999.75	11722.98	<b>Average % Chg Low to High</b>	365.8%		
% Chg at High	332.9%	31.0%	217.1%	198.9%	305.8%	<b>Avg % Chg War Hi - Peace Lo</b>	-26.1%		
Low	41.22	161.60	255.49	577.60	2855.45	<b>Avg % Chg War Lo - Peace Hi</b>	375.3%		
% Chg at Low	-53.2%	-7.3%	-4.8%	-42.4%	-1.2%				
% Chg Low to High	824.7%	41.3%	233.2%	419.3%	310.5%				
% Chg War Hi - Peace Lo	-62.6%	-7.3%	-13.0%	-45.1%	-2.7%				
% Chg War Lo -Peace Hi	628.5%	145.8%	331.2%	375.3%	395.7%				

## The U. S. Oil Gage — Tusk Energy Splits in Two

By Dave Kamm

Unless someone has repealed winter in the northern latitudes, the thermostats will get a workout in the coming weeks. So will the oil and gas pipelines.

In 2004 (thru November 8) West Texas Intermediate Crude (WTI) has increased from \$32.53 to \$49.09 per barrel or some 50%. Meanwhile Natural Gas (Henry Hub closing prices) has gone from \$5.83 to \$6.23 per Mcf (+6%). That is a much less serious increase. In 2003 both oil and gas prices increased, but it was natural gas that jumped dramatically.

The price of oil (West Texas Intermediate Crude) fell from \$55.23 on October 25th to \$46.88 on November 15th. That's 15% in 15 trading days. However it's apparent that the "proper" price of oil remains a mystery to all. It's fascinating to note that as the election results became known and the Iraq fighting intensified, some prognosticators have lowered their oil price projections for 2005. The visible facts are that energy consumption around the globe is increasing. The available supply is also somewhat fluid and unknown. In the first 45 days of Q4 the WTI price has

averaged \$51.66 per barrel and that's well above the \$43.78 per barrel recorded in Q3.

In general, a major difference between royalty trusts and regular oil and gas stocks is cash flow to investors. Very few oil and gas companies pay significant dividends. But in many cases, royalty trusts have had current payouts that were well above yields readily found elsewhere.

We have followed **BP Prudhoe Bay Royalty Trust (BPT)** for years. This trust was formed in the late 1980s and income comes from oil that is produced from the North Slope of Alaska. Several items go into the determination of any dividend but the moving parts are basically reduced to the price of oil. The company estimates that royalty payments will continue through 2029, but none are guaranteed and there is no assurance they will transpire.

I hasten to add that in the history of the trust the BPT dividend has risen 30 times, been lowered 27 times and was zero for two quarters in 1999. The BPT dividends in 2003 were 58, 80, 55 and 58 cents respectively, while the 2004 dividends have been 67 cents, 85 cents, \$1.00, and \$1.30. This issue is not for

investors wanting consistent cash flow. Oil has risen this year and so has the BPT dividend and stock price. BPT shares currently trade about \$15 higher than they did on January 1, 2004. Should oil reverse downward look for both the dividends and stock to follow. The BPT dividend is highly dependent upon the price of oil. Unless the WTI price falls through the floor, the next BPT dividend is likely to be higher than the \$1.30 paid in October.

Another royalty trust we track is **Dominion Black Warrior Trust (DOM)**. Any future dividends will be garnered from natural gas produced from fields in Alabama. In the past, the trustee hedged 75% of the production before the year began in an attempt to stabilize the dividend. That ceased in 2004 and now the payout is directly tied to the price of natural gas.

The rising price of natural gas has bumped the recent cash payout somewhat higher than earlier years and DOM quarterly dividends in 2003 were 64, 69, 61 and 57 cents respectively. In 2004 they have been 56, 80, and 80 cents. This dividend is not guaranteed and will fluctuate in both directions.

### OIL & GAS ROYALTY TRUSTS AND CONCERNS

Ticker	Royalty Trust	Recommendation	11/17/04	Sold	%	Ann.	Yield*	Editor's Advice	
		Date	Price	Price	Price Change	Div.		STOP ONLY IF CLOSES BELOW	
PETD	Petroleum Development	1/14/04	20.15	34.59	—	71.7%	—	Hold - Q3 earnings up 67% - first target \$41	
ABP	Abraxas Petroleum	4/14/04	2.60	2.38	—	-8.5%	—	Hold - New drilling increases potential	
PQUE	Petroquest Energy	4/14/04	4.00	4.39	—	9.7%	—	Hold - Q3 revenues doubled	
POG	Patina Oil & Gas	6/12/04	26.99	30.26	—	12.1%	\$0.20	0.7%	Hold - Q3 earnings up 54% - first target \$34
BPT	BP Prudhoe Bay R Trust	8/11/04	33.65	45.22	—	34.4%	\$5.21	11.5%	Hold - Last div rose from \$.99 to \$1.31
CRZO	Carrizo Oil & Gas	10/20/04	10.04	9.57	—	-4.7%	—	—	Hold - Excellent Q3 report - first target \$12
TKEFF	TKE Energy Trust (Split Adjusted)	10/20/04	3.55	7.90	—	122.5%	\$1.21	15.3%	Buy - Dividend is \$1.44 C\$ - big yield
TSGYF	TUSKEx (Split Adjusted)	10/20/04	0.89	1.85	—	107.9%	—	—	Buy - New capital - drilling begun
					Average % Return**	43.1%			

### CLOSED POSITIONS

BPT	BP Prudhoe Bay R Trust	8/13/02	12.99	—	15.90	22.4%	Sold @ 15.90	1/14/03	
WTU	Williams Coal Seam Gas R T	8/13/02	6.99	—	10.71	53.2%	Sold @ 10.71	1/14/03	
DOM	Dominion Res Black Warrior Tr	8/13/02	20.24	—	22.25	9.9%	Stopped out @ 22.25	3/11/03	
SJT	San Juan Basin Royalty Trust	10/16/02	12.49	—	18.00	44.1%	Sold @ 18.00	6/17/03	
BPT	BP Prudhoe Bay R Trust	4/11/03	14.10	—	24.93	76.8%	Sold @ 24.93	12/1/03	
WTU	Williams Coal Seam Gas R T	9/17/03	10.00	—	13.85	38.5%	Sold @ 13.85	1/6/04	
HGT	Hugoton Royalty Trust	6/18/03	18.53	—	21.45	15.8%	Sold @ 21.45	3/23/04	
LRT	LL&E Royalty Trust	2/12/03	2.50	—	6.12	144.8%	Sold @ 6.12	4/14/04	
PBT	Permian Basin Royalty Trust	6/18/03	7.50	—	9.50	26.7%	Sold @ 9.50	7/14/04	
CRT	Cross Timbers Royalty Trust	11/11/03	25.25	—	29.49	16.8%	Sold @ 29.49	7/14/04	
EENC	Enterra Energy Trust	1/14/04	11.19	—	13.39	19.7%	Sold @ 13.39	7/14/04	
LRT	LL&E Royalty Trust	6/12/04	4.78	—	4.93	3.1%	Sold @ 4.93	7/14/04	
BPT	BP Prudhoe Bay R Trust	1/14/04	29.43	—	39.45	34.0%	Sold @ 39.45	8/4/04	
DOM	Dominion Res Black Warrior Tr	3/17/04	28.80	—	33.45	16.1%	Sold @ 33.45	8/14/04	
RRC	Range Resources	4/14/04	12.49	—	15.43	23.5%	Sold @ 15.43	8/14/04	
					Average % Return**	36.4%			

\* Not Including Tax Benefits \*\* Not Including Dividends

DOM is currently trading about 27% above the January 1, 2004 price.

**Williams Coal Seam Royalty Trust's** (WTU) quarterly dividend pattern this year has been 32, 39, 40, and 37 cents per share. So it too has been jerky and obviously not guaranteed in the future. At its current level, the annualized cash payout is only 8.3%, and the major holder is selling shares virtually every day. WTU is trading about 37% above the January 1, 2004 price.

**San Juan Basin Royalty Trust** (SJT \$29.12) is up 34% so far in 2004. The basis for the SJT dividend is also natural gas. A major difference is that SJT gas is mostly from deep long lasting wells. According to the prospectus, the trustees determine any payouts on a monthly basis, but are not obligated to pay anything. The last six monthly dividends were 19, 18, 27, 23, 22 and 21 cents per share. There is drilling activity on the SJT properties so the trust is subject to those costs. Thus the dividend can, and does fluctuate widely.

Most royalty trusts derive their cash flow from one field, local or type of hydrocarbon. An exception is the **LL&E Royalty Trust** (LRT). The trust has four different fields from which to generate income. Potential production is about equally divided between oil and natural gas; the hurricane and regulatory issues have hindered current operations in two of those fields.

The trust historically pays dividends monthly but the payout varies widely. In the history of the trust there have been no distributions during some periods, and that could be the case in the future as well. There is drilling activity on the LRT properties so the trust is subject to those costs. The LRT dividend is the most volatile of all the royalty trusts I monitor. The shares are up 27% in 2004.

Until the Iraq situation is resolved expect more volatility in energy prices. For the most part a buy and hold strategy may not work with these trusts. When energy prices are in a bull phase the dividends can be very

hefty, but in a falling price environment they could disappear. Selling when fear and uncertainty is very high may be a good strategy.

## Two-for-One

The symbol TGEGF no longer works because Tusk Energy Inc. split into two companies on November 5th. One is a Royalty Trust. The name is **TKE Energy Trust** (TKEFF). TKE Energy Trust has announced its first monthly dividend of C\$0.12 (12 cents Canadian) payable on 1/15/05 to holders of record on 12/31/04.

The other company is a natural gas exploration company named **TUSKEx** (TSGYF). An active drilling program is currently underway in northern Alberta. Up to 15 additional wells will be drilled by TUSKEx prior to March 31, 2005. On November 15th the company made a private placement of shares and raised C\$16 million to fund exploration.

For each two shares of Tusk Energy owned before the split, a holder will receive one share of the exploration company and one share of the unit trust. In other words, 1000 shares before the split results in 500 TKE Energy Trust and 500 TUSKEx.

The exchange of certificates is taking longer than anticipated, but shares of both entities are trading on the Toronto Exchange and in the U.S. as well.

## Earnings Updates

**Petroleum Development** (PETD) - Record Q3 Revenues, \$73 million vs \$47 million in Q3 2003. Earnings per share \$ .52 vs \$ .31 respectively (up 67%). Conference call produced no surprises. One thing holding the stock back is a lack of analyst coverage — only one.

**Patina Oil & Gas** (POG) - Record Q3 Revenues, \$138 million vs \$99 million in Q3 2003. Earnings per share \$ .54 vs \$ .35 respectively (up 54%). Conference call produced no surprises. On Nov. 2, First Albany began coverage with a strong buy.

**Carrizo Oil & Gas** (CRZO) - Q3 Revenues, \$12.2 million vs \$10.1 million in Q3 2003. Earnings per share \$ .15 vs \$ .11 respectively (up 36%). Conference call produced no surprises.

**Petroquest Energy** (PQUE) - Q3 Revenues, \$22.6 million vs \$9.8 million in Q3 2003. Earnings per share \$ .08 vs \$ .01 respectively.

**Abraxas Petroleum** (ABP) - Q3 Revenues, \$11.8 million vs \$8.4 million in Q3 2003. Earnings per share loss \$ -0.05 (loss) vs \$-0 .08 (loss) respectively. Company completed refinancing of debt that restricted capital expenditures. Then the company announced acceleration of their drilling program.

Earnings reports across the 100 plus oil companies we monitor were generally in line with analyst expectations. Revenue and EPS increases were significant and double-digit increases were numerous. So far the climate in Q4 is even more favorable. That could make the earnings reports in a couple months very interesting. Should expectations cool and earnings increases accelerate further, it could catch the investing world with too few energy stocks in their portfolios.

*Dave Kamm is an Investment Advisor Representative with Raymond James & Associates, Inc. Member New York Stock Exchange/SIPC. Past performance does not guarantee future results. There is no assurance these trends will continue. The market value of securities fluctuates and you may incur a profit or a loss. Dividends will fluctuate and are not guaranteed. The foregoing material does not provide a complete description of the security, markets or developments referred to. Investors should thoroughly investigate these companies before investing. Further information is available upon request. Send Dave your comments or questions to [info@floridastocks.com](mailto:info@floridastocks.com). At the time of publication Dave Kamm, members of his family and clients own shares ABP, BPT, CRT, CRZO, DOM, EENC, HGT, PBT, PETD, POG, SJT, TKEFF and TSGYF.*

## Portfolio Updates

(continued from page 7)

**GP Strategies** (GPX) climbed to another new high, finally giving us a double on our original position and calling for partial profit taking under our standing strategy. The firm produced good results in the September quarter. The important numbers to look at are those for the core General Physics business that will be left after reorganization. Sales for this segment (training, e-learning, consulting and engineering) jumped to \$44.2 million from \$33.3 million a year earlier. About \$2 million of this came from post-disaster relief services provided in Florida after the hurricanes. Net income before interest and taxes for the core business was \$3.0 million versus \$2.2 million.

Total company sales were \$80.3 million compared with \$34.2 million, but the big jump was mainly due to the consolidation of results from Five Star (the home products distributor) due to increased ownership of that subsidiary. Five Star and other miscellaneous assets have been gathered into National Patent, which is being spun off to GPX shareholders on a one-for-one basis.

The registration statement for that distribution is now effective, and the record date has been set as November 18. The distribution date is expected to be November 24, and stock will not trade ex-distribution until that time. In other words, you must hold GPX through the distribution in order to get the stock dividend. National Patent will trade on the OTC Bulletin Board under the symbol NPDVV. It will be a motley collection of operations and we'll probably sell it — but we want to see how the market values it first.

**XM Satellite Radio** (XMSR) powered out of this year's trading range and is approaching the all-time highs. **Sirius Satellite** (SIRI) jumped to a two-year high — both companies helped by belated analyst upgrades, their aggressive programming stances, and continued acquisi-

tion of new subscribers at a gratifying pace. Sirius signed on to broadcast Howard Stern and NFL football, while XM countered with a \$650 million deal to carry Major League Baseball. These deals have been great for generating publicity and new subscribers. We won't know for a while if they generate enough income to pay the cost. We have been bullish but cautious on both stocks, considering them trades rather than investments. Their strong revival lately demonstrates a renewed speculative element in the market. We'd continue to sell into strength and buy back on the corrections.

**Datatrak** (DATA) has been pushing against the upper boundaries of its trading range but hasn't yet mustered the strength to break out. Great quarters have become routine for DATA. The latest interim saw a sales gain of 57% to \$2.96 million while the company became solidly profitable with net of 6 cents a share versus a small loss. The stock probably looks expensive to those who don't know the story, but we think the strong growth pace can continue indefinitely, putting DATA much higher in the long term.

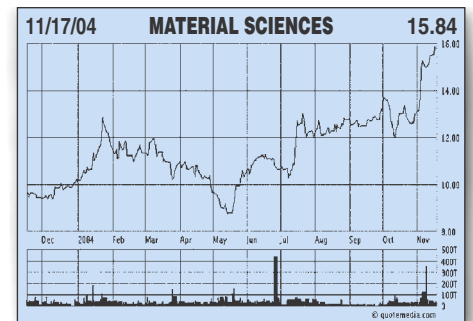
**eMagin** (EMA) took a leap to 1.50 but quickly gave back most of the gain. Third quarter sales jumped 45% to \$1.1 million, but EMA lost 4 cents a share versus 2 cents. Higher R&D expense was the main reason. The company introduced several new products during the quarter and was granted a couple of patents that may be important eventually. But the big question remains — when will production finally ramp up? We and most others expected EMA to be further along by now. The stock is a good trading vehicle (with support just under current levels) while we wait for management to deliver.

**Digi International** (DGII) boosted sales 11.2% in the fiscal fourth quarter to \$29.3 million, helped mainly by strong growth in networking products. Net was 13 cents a share compared with 9 cents. For the full 12 months, revenues gained 8.1% to \$111.2 million and

the bottom line calculated to 39 cents a share versus a loss. The market liked these results and the prospects, pushing DGII to the highest price since the bubble days.

**Material Sciences** (MSC) pronounced the dreaded words “earnings restatement,” but in this case the adjustment will be upwards due to earlier overestimation of impairment charges. It won't fatten the bottom line by much, but the market is anticipating more good news with MSC making new highs.

Our biotech selections took favorable bounces but have come back down. The biotechs, even more than other speculative situations, need to be bought on corrections — they are giving us another chance now.



**AVI Biopharma** (AVII) slipped despite favorable research results, including positive Phase II tests of Resten NG in preventing cardiovascular restenosis. Traders may be looking at the third quarter loss of \$5.1 million, up from \$4.6 million. The company has cash of \$23 million, which isn't exactly comfortable. But recent research grants will help moderate the cash burn, and we think it will be possible for AVII to raise money. Buy on any further weakness.

**Biomira** (BIOM) is still up from our entry price but down from the recent level. It's in much the same position as AVII — less than desirable but not yet critical cash balances. That is outweighed by a promising pipeline, including the fast-tracked cancer vaccine.

**Ciphergen** (CIPH) is back down after an earlier strong gain. Sales

declined 31% to \$11 million in the September quarter — no surprise as CIPH is transitioning to a new generation of the ProteinChip system. The company lost \$9.5 million and has taken steps to reduce overhead. In addition, the BioSeptra process chromatography business has been sold for \$32 million. There is no liquidity problem, and the outlook is positive.

**SuperGen** (SUPG) has just received marketing approval for Paclitaxel, a generic equivalent of Taxol. The stock jumped but has given back some of the gain. Also, the company filed a New Drug Application seeking approval of its cancer agent Dacogen. That and other proprietary drugs will be important. The stock remains a buy at our limit.

## Energy Stocks Hold Fast

With oil down almost \$10 from the peak, energy stocks are holding up remarkably well. A number remain very close to their highs. This is mostly due to a correction in crude having been priced in all along. The stocks never reflected oil at \$55 and natural gas at \$8 per MCF. We expected them to hold up, but said any corrections would be a chance for new buying. That is still our position.

**Infinity** (IFNY) sold about one million shares to institutions in a private placement. It's encouraging that some big money has confidence in this situation. Third quarter results were decent, but mainly because of a 32% sales gain at the oil well service subsidiary. Gas production was still flat and unimpressive. A second Barnett Shale well was spud based on logs from the first one — though number one has not yet been tested. IFNY has more projects going than ever. Something may go right for a change; the stock is worth holding and worth buying on dips.

**Parallel Petroleum** (PLLL) reported moderately lower production, sales and earnings (4 cents a share) for the third quarter. The earnings would have been much better

except for substantial price hedging — but that's part of management's conservative outlook, for better or worse. The lower production (which will be temporary) is part of the strategy to move into long-life properties. The recent acquisition of new projects and additional interest at the Fullerton field bolsters that plan.

**American Oil & Gas** (AOGI) is consolidating between our recommendation price and the recent high. The near term direction is likely to depend on drilling results, which we await.

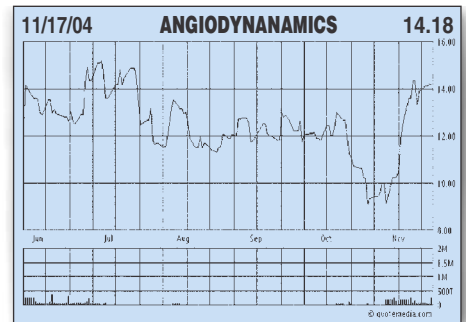
## Metals on the Move

**Northern Orion** (NTO) has been our best performing mining stock lately. This is a most unusual junior company — though we perhaps have to call it a mid-tier firm already. Thanks to the very timely purchase of an interest in the big Alumbra copper-gold mine, NTO now has substantial cash flow, plus major long-term upside from its Agua Rica property and the possibility of taking on still more projects. In the recent quarter earnings were 5 cents a share versus 2 cents. Operating cash flow was \$13.9 million or 13 cents a share, and the firm now has \$41.8 million in cash.

A bankable feasibility study has begun regarding putting Agua Rica into production — though NTO may not even need the banks if metals prices average anything like current levels. Alumbra may throw off enough cash to build the mine. But commodities quotes and mining stocks do fluctuate. Wait for a substantial correction to do new buying.

**Orezone** (OZN) has acquired a substantial concession (2,000 square kilometers) in Niger that may contain an extension of its major gold system in Burkina Faso. Sampling has indicated the potential for similar structures. The Orezone story remains the same — its deposits just keep growing. The stock is up a lot, but so are the proven and indicated reserves. We'd still be buyers on corrections.

**European Minerals** (EPMu.T) has been tweaking its feasibility plan for the Varvarinskoye project. Management says capital costs will be lower than projected earlier, while reserves have increased to 2.35 million ounces of gold and 269 million pounds of copper. At prices of \$400 an ounce for gold and \$1.10 a pound for copper, the cost payback period would be less than two years. EPM is recovering from the unjustified summer slump. The first serious resistance is around 1.



**E-Z-EM Inc.** (EZM) has completed the tax-free distribution of **AngioDynamics** (ANGO) to its shareholders on the basis of 0.856377 ANGO for every EZM share. At current prices this combo gives us about a quadruple on our original investment. AngioDynamics is a fast growing producer of equipment for minimally invasive vascular surgery. The outlook is very bright, but there is growing competition and the stock is certainly not cheap. ANGO was taken public in a small offering before the spin-off. After that it corrected and then started a recovery that has taken it almost back to the highs. The market environment should be good for this sort of situation over the next few months, and we are hanging on to ANGO for now. The bookkeeping is a bit complicated when it comes to accounting for our gains here. If we adjust the EZM purchase for the subsequent spin-off, then we come up with a negative entry price! So we'll just treat the two stocks as a pair for now.

*Disclosure Note: At press time Officers of the Hirsch Organization have positions in American Oil & Gas, Datatrack, eMagin, European Minerals, Infinity, Pacific Northwest Capital, Parallel Petroleum and US Energy.*

## Exchange Traded Funds — Seasonality Strategy

### **Bullish Sectors: Oil (December-May), Gold/Silver (December-May) — Sell Utilities**

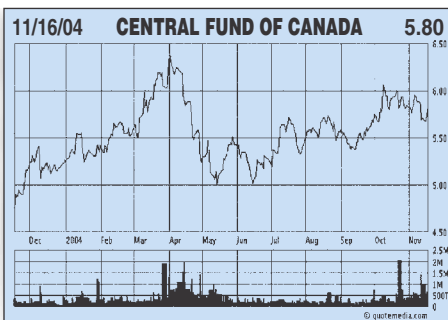
By: J. Taylor Brown

Our High Tech picks last month were just in the nick of time to catch the latest powerful market rally. We have also had a solid gain in the Russell 2K ETF. The portfolio continues to perform well with only one loser on record thus far—the PPH (thank you very much Merck). Looking at the 8.0% gain on the surface might not knock your socks off, but remember, these are all short term trades. If annualized, the returns are extremely impressive not to mention the safe and reliable nature of the strategy.

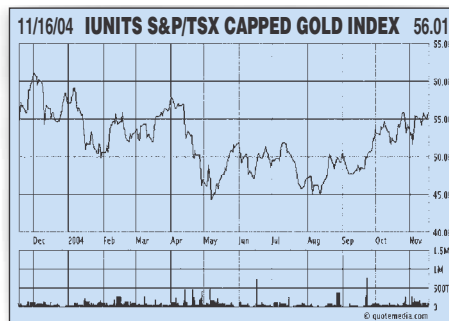
The bullish sectors this month are **Energy and Gold/Silver**. Both groups have already seen some nice gains, with precious metals particularly strong recently. Historical precedent argues that these moves should continue well into next year at least.

Gold/Silver has enjoyed an average gain of 6.6% from December to May. As a reminder, our strategy is to pick up corresponding ETFs for the bullish periods of sectors a few weeks before the historical bullish move and sell them a few weeks before the end of the period. Once again, I urge any Almanac Investor interested in getting involved in our Sector Seasonality Strategies to review the August and October issues of the Almanac Investor for in-depth instructions and guidelines utilized and employed by us for trading the ETFs.

Last time around for Gold and Sil-



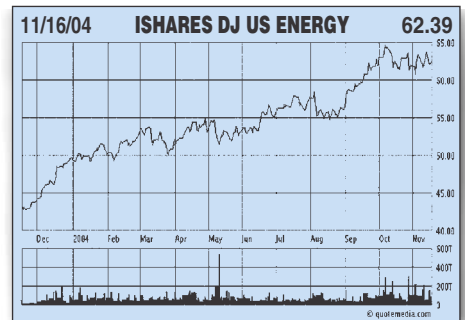
ver, we tried something new. The **Central Fund of Canada** (CEF) is a stock that trades on the Amex. While not a traditional ETF, this stock reflects the true nature of the strategy, eliminating the volatility and uncertainty that the other ETFs have by eliminating the miners and producers. 90% of the assets of the Central Fund of Canada are a 50:50 split between gold and silver bullion. In a nutshell, buying this stock is akin to buying a share of a vault filled with bars of silver and gold. Last time around, the CEF went up 6.1% from August-September; exactly what the historical trend predicted it would do. Due to the lofty price of gold right now, we are setting the buy limit under the market. **Buy Limit: 5.65 Stop Loss: 4.80 Target Price: 6.02 Automatic Sell Point: 6.62**



The second option for Gold and Silver is a pure gold play that also factors in the producers and miners, the **iUnits S&P/TSX Capped Gold Index Fund** (XGD.T). There are 20 securities in the fund. The top five holdings are Barrick (23.8%), Placer Dome (23.5%), Goldcorp (7.3%), Kinross (7.1%) and Glamis (7.0%). We are setting this buy limit under the market level for the same reason stated above. **Buy Limit: 54.50 Stop Loss: 46.33 Target Price: 58.10 Automatic Sell Point: 63.91**

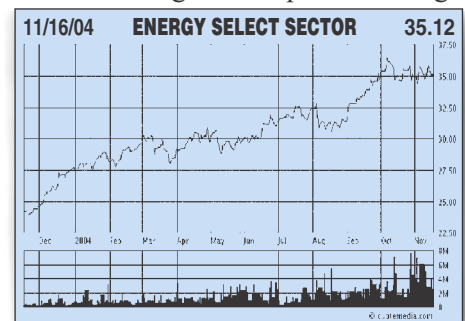
As we go to press rumors of a **streetTRACKS US Gold** ETF have been confirmed. It is expected to begin trading any day now. Each

share represents ownership in 1/10 ounce of gold. We will add this to our ETF portfolio as soon as it begins trading. We will alert Almanac Investors via email when it becomes available and whether or not it is added to our portfolio.



Oil has a bullish seasonality from December to May with an average return of 11.5%. There is a bevy of oil ETFs available, but two stand out. The first is the **Dow Jones U.S. Energy Sector Index Fund** (IYE). Although it is technically an energy fund, it is dominated by oil and oil service companies. The top five holdings are ExxonMobil (23.7%), ChevronTexaco (21.9%), ConocoPhillips (5.0%), Occidental Petroleum (4.6%) and Schlumberger (4.2%). We are picking this ETF up at the current market prices. **Buy Limit: 62.24 Stop Loss: 53.24 Target Price: 69.40 Automatic Sell Point: 76.34**

The second Oil ETF, **Select Sector SPDR-Energy** (XLE), has an interesting array of oil, and oil services stocks, as well as straight energy plays. The fund has 27 holdings. The top five holdings



are identical to the IYE: ExxonMobil (20.8%), ChevronTexaco (15.4%), ConocoPhillips (8.2%), Schlumberger (3.9%) and Occidental Petroleum (3.9%). **Buy Limit: 35.20 Stop Loss: 29.92 Target Price: 39.25 Automatic Sell Point: 43.18.**

In the preparation of this article, an

important oversight was discovered! In the April issue of the *Almanac Investor* the **Utilities HOLDRS** (UTH) was recommended at a buy limit of 79.95, which was reached. This has sat dormant, not in our portfolio on page 15, unnoticed and not factored into our performance. We

have corrected the portfolio to reflect the UTH recommendation this month. The UTH is currently up about 20% dwarfing the historical 6.8% return for the Utilities bullish seasonality that runs from April to December. If you have a position, **sell the UTH at the current price.**

### Almanac Investor Stock Portfolio

Symbol	Company	Recommended Date	Price	Subseq High	11/16/04 Price	Net % Return	Current Advice <sup>1</sup> STOP ONLY IF CLOSES BELOW
IFNY	Infinity Inc * 2	1/10/01	3.69	11.55	5.56	50.8%	HOLD
USEG	U.S. Energy 2	7/17/02	2.05	5.92	2.33	13.7%	Buy Limit 2.30
GPX	GP Strategies	10/16/02	4.20	8.95	8.50	102.4%	Sold Half 11/2/04 @ 8.40
XMSR	XM Satellite Radio 2	11/20/02	1.82	36.84	36.13	1885.2%	HOLD, Stop Loss 27.30
OZN	Orezone Resources 2	1/15/03	0.25	1.40	1.30	420.0%	Buy Limit 1.18
DATA	Datatrak 2	2/12/03	1.30	13.22	11.40	776.9%	Buy Limit 10.25
EMA	eMagin 2	2/12/03	0.75	3.80	1.04	38.7%	Buy Limit 1.15
EZM	E-Z-EM Inc 2	3/12/03	7.10	21.50	14.34	102.0%	Stop Loss 11.10
SUMT	SumTotal Systems * 2	4/9/03	3.74	8.67	5.50	47.1%	HOLD, Stop Loss 4.41
SNG	Candian Superior Energy _	5/14/03	1.00	3.65	1.90	90.0%	Buy Limit 1.15
DGII	Digi Int'l 2	5/14/03	4.29	15.45	15.24	255.2%	HOLD, Stop Loss 11.25
MSC	Material Sciences	6/18/03	10.84	16.02	15.86	46.3%	Buy Limit 13.85, Stop Loss 11.30
EPMu.T	European Minerals ** 2	9/17/03	0.44	1.12	0.75	70.5%	Buy Limit 0.65
FSVP	FIND/SVP 2	10/14/03	1.40	2.85	1.65	17.9%	Buy Limit 1.75
VAL.V	ValGold Resources ** 2	10/14/03	0.33	0.80	0.36	7.6%	Buy Limit 0.33
FCGI	First Consulting Group	11/12/03	5.50	7.28	5.72	4.0%	Buy Limit 4.50
SIRI	Sirius Satellite Radio 2	11/12/03	2.05	4.95	4.71	129.8%	Stop Loss 3.35
SANZ	SAN Holdings	12/17/03	0.40	0.66	0.32	-20.0%	Buy Limit 0.35
WTRS	Waters Instruments	1/14/04	6.85	11.95	7.66	11.8%	Buy Limit 6.85
HHO.T	Stuart Energy Systems **	2/11/04	3.00	3.77	3.55	18.3%	Buy Limit 3.05
AVII	AVI BioPharma	3/17/04	3.12	3.74	2.08	-33.3%	Buy Limit 2.10
MKTY	Mechanical Technology	4/14/04	5.86	6.88	5.50	-6.1%	Buy Limit 4.55
UQM	UQM Technologies	4/14/04	3.05	3.49	2.21	-27.5%	Buy Limit 2.30
PLLL	Parallel Petroleum	5/12/04	3.90	5.75	5.05	29.5%	Buy Limit 4.75
TIVO	TiVo	5/12/04	6.72	9.12	5.88	-12.5%	Buy Limit 5.50
BIEL	Bioelectronics	6/9/04	0.40	0.51	0.34	-15.0%	Buy Limit 0.35
XDSL	mPhase Technologies	6/9/04	0.34	0.44	0.24	-29.4%	Buy Limit 0.30
NTO	Northern Orion	6/9/04	2.22	3.10	2.96	33.3%	Buy Limit 2.55
PFN.T	Pacific Northwest Capital **	6/9/04	0.57	0.68	0.41	-28.9%	Buy Limit 0.55
AOGI	American Oil & Gas	8/11/04	1.52	2.50	2.18	43.4%	Buy Limit 1.95
BIOM	Biomira	9/15/04	1.10	1.74	1.35	22.7%	Buy Limit 1.16
CIPH	Ciphergen Biosystems	9/15/04	3.25	4.40	3.32	2.2%	Buy Limit 3.25
SUPG	SuperGen	9/15/04	6.00	6.97	6.21	3.5%	Buy Limit 6.00
BNK.V	Bankers Petroleum LTD **	10/20/04	0.60	0.64	0.50	-15.3%	Buy Limit 0.50
EGHT	8x8 Inc.	10/20/04	3.07	3.77	3.25	5.9%	Buy Limit 3.00
ANGO	AngioDynamics *	10/30/04	10.68	15.31	14.22	33.1%	HOLD
Open Position Average % Return						113.2%	
Average Total % Return <sup>3</sup>						88.3%	

### Almanac Investor Sector Selector Portfolio

UTH	Utilities HOLDRS	3/17/04	79.95	96.52	95.79	19.8%	Stop Loss 93.66 or Sell Dec 31
BBH	Biotech HOLDRS	7/14/04	140.00	149.49	141.05	0.8%	Stop Loss 128.00
IBB	iShares NASDAQ Biotech	7/14/04	70.00	72.51	71.31	1.9%	Stop Loss 60.00
IAH	Internet Architecture HOLDRS	9/15/04	32.25	36.36	36.12	12.0%	Stop Loss 29.00
IIH	Internet Infrastructure HOLDRS	9/15/04	3.40	4.42	4.40	29.4%	Stop Loss 2.74
RTH	Retail HOLDRS	9/15/04	90.00	102.15	100.31	11.5%	Stop Loss 85.01
XLB	Select Sector SPDR-Materials	9/15/04	26.50	29.25	28.83	8.8%	Stop Loss 22.01
IGM	iShares Goldman Sachs Tech	9/15/04	42.00	45.90	45.49	8.3%	Stop Loss 38.01
TTH	Telecom HOLDRS	9/15/04	27.50	30.10	28.96	5.3%	Stop Loss 24.01
RKH	Regional Bank HOLDRS	9/15/04	132.00	142.03	140.58	6.5%	Stop Loss 115.01
SMH	Semiconductor HOLDRS	9/15/04	30.00	33.79	33.53	11.8%	Stop Loss 27.01
IGW	iShares Goldman Sachs Semi	9/15/04	47.50	53.42	52.91	11.4%	Stop Loss 40.01
IYF	iShares DJ US Financial Sector	9/15/04	90.00	95.64	94.67	5.2%	Stop Loss 81.00
XLF	Select Sector SPDR-Financial	9/15/04	28.50	29.98	29.67	4.1%	Stop Loss 25.00
HHH	Internet HOLDRS	10/4/04	61.14	68.05	66.64	9.0%	Stop Loss 49.00
PPH	Pharmaceutical HOLDRS	10/4/04	72.71	73.05	69.74	-4.1%	Stop Loss 61.80
DIA	Diamond Trust DJIA 30	10/4/04	102.31	105.84	105.13	2.8%	HOLD
SPY	S&P 500 SPDR	10/4/04	113.84	119.00	117.88	3.5%	HOLD
QQQ	NASDAQ 100 Trust	10/4/04	36.31	38.86	38.59	6.3%	HOLD
IYW	iShares DJ US Tech Sector	10/20/04	44.50	48.21	47.84	7.5%	Stop Loss 40.00
IGM	iShares Goldman Sachs Tech	10/20/04	42.00	45.90	45.49	8.3%	Stop Loss 38.50
IXN	iShares S&P Global Tech Sector	10/20/04	47.50	51.25	50.59	6.5%	Stop Loss 43.00
XLK	Technology Select Sector SPDR	10/20/04	19.50	21.36	21.02	7.8%	Stop Loss 17.75
MTK	streetTRACKS MS Tech	10/20/04	45.50	48.70	48.39	6.4%	Stop Loss 40.00
IWM	iShares Russell 2000	10/20/04	114.00	124.55	123.45	8.3%	Stop Loss 105.00
Open Position Average % Return						8.0%	
Average Total % Return <sup>3</sup>						6.7%	

<sup>1</sup> STANDARD POLICY: SELL HALF ON A DOUBLE; <sup>2</sup> Half position; \* Adjusted for splits, mergers & spin-offs; \*\* Canadian Dollars

<sup>3</sup> Average Total % Return includes sales of partial positions, stopped out positions and sold positions available on request

### Market at a Glance

**Fundamental:** Favorable, with the latest data showing renewed economic strength. The dollar weakness is worrisome from an inflation standpoint, but bullish for U.S. manufacturers.

**Technical:** Neutral to favorable. Momentum is unarguably favorable but we haven't seen the overwhelming volume and breadth that would signal a major upleg. Sentiment is already way too bullish.

**Monetary:** The purse strings remain loose despite the Fed's mild rate hikes. We must keep an eye on inflation, but the monetary picture is still bullish.

**Seasonal:** Bullish. We are entering the most favorable part of the Best Six Months — the sweet spot.

# DECEMBER 2004

**Bullish Sectors: Oil, Gold/Silver**  
**Bearish Sector: None**  
**Sell: Utilities**



*Note:* The Bull symbol signifies a favorable day based on the S&P 500 Rising 60% or more of the time on a particular trading day 1983-2003.

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SAT	SUN
<p><b>*Tuesdays:</b> Weekly Chain Store Sales &amp; Average Hourly Earnings</p> <p><b>*Wednesdays:</b> Oil &amp; Gas Inventories</p> <p><b>*Thursdays:</b> Weekly Unemployment Report, Weekly Mutual Fund Flows &amp; Weekly Natural Gas Storage Report</p> <p><b>*Fridays:</b> Weekly Leading Economic Index</p> <p><i>*Except holidays</i></p> <p><i>Note: Economic Releases in <b>Bold</b> are especially important</i></p>		<p><b>1</b></p> <p><b>Beige Book</b> Construction Spending ISM Index Personal Income/Spending Semiconductor Billings Vehicle Sales</p>	<p><b>2</b></p> <p><b>2003 broke a 3-year Dow losing streak first trading day of December</b></p> <p><b>Nov Chain Store Sales</b> Factory Orders</p>	<p><b>3</b></p> <p>ECRI Future Inflation Index <b>Nov Employment Rate</b> ISM Non-Mfg.</p>	<b>4</b>	<b>5</b>
<b>6</b>	<p><b>7</b></p> <p><b>Average December gains last 33 years:</b>  <b>NAS: 2.1% Up 20 Down 13 Rank #2</b>                      Consumer Debt Productivity and Costs</p>	<p><b>8</b></p> <p><b>Chanukah Begins</b>  <b>Dow: 1.8% Up 24 Down 9 Rank #3</b></p>	<p><b>9</b></p> <p><b>S&amp;P: 1.7% Up 25 Down 8 Rank #2</b>                      Import/Export Prices Wholesale Trade</p>	<p><b>10</b></p> <p><b>PPI</b> Treasury Budget U Mich Consumer Sentiment</p>	<b>11</b>	<b>12</b>
<p><b>13</b></p> <p><b>Monday of December Triple-Witching Week Dow up 8 of last 13</b>                      Business Inventories <b>Nov Retail Sales</b></p>	<p><b>14</b></p> <p><b>FOMC Meeting Industrial Production Int'l Trade Deficit</b></p>	<p><b>15</b></p> <p><b>NAHB Housing Mrkt Index</b></p>	<p><b>16</b> </p> <p><b>Small cap strength starts in mid-December Week of December Triple Witching Dow up 11 of last 13</b>                      Housing Starts Philadelphia Fed Survey SEMI Book to Bill Ratio</p>	<p><b>17</b> </p> <p><b>Triple Witching Day Dow up 10 of last 15</b>                      CPI</p>	<b>18</b>	<b>19</b>
<p><b>20</b></p> <p><b>Week after December Triple Witching Dow up 10 of last 13 If Santa Claus should fail to call, bears may come to Broad and Wall Watch for Santa Claus Rally!</b>                      Leading Indicators</p>	<p><b>21</b></p>	<p><b>22</b> </p> <p><b>Last trading day before X-mas Dow up 8 of last 13 but last 3 weak</b>                      Final Q3 GDP</p>	<p><b>23</b> </p> <p><b>Durable Goods</b> Personal Income/Spending New Home Sales U Mich Consumer Sentiment</p>	<p><b>24</b></p> <p><b>(Market Closed)</b></p>	<b>25</b>	<b>26</b>
<p><b>27</b></p> <p><b>First trading day after X-mas Dow up 11 of last 13</b></p>	<p><b>28</b> </p> <p>Consumer Confidence</p>	<p><b>29</b> </p> <p>Agricultural Prices Existing Home Sales</p>	<p><b>30</b> </p> <p>Chicago PMI</p>	<p><b>31</b></p> <p><b>Last day of Year NAS up 29 of 33 but down last 4 — Dow Down 5 of 8</b></p>		

*Economic release dates obtained from sources believed to be reliable. All dates subject to change.*