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Welcome to our annual Top Picks report. Each January, for 23 years, I have asked a select group of the nation's leading advisors to select a favorite stock for the year ahead. This year, we are making some changes to make this report even more valuable.

In this special report, we will be sharing the responses from the nation's leading advisors to our request for their favorite stocks for 2006. It is important to understand that this report is a snapshot in time. The participating advisors are making their selections based on their current assessment of a particular company within the current market environment. However, fundamentals change, and hence, a stock that is now a favorite buy can quickly become a strong sell, based on future events. As such, the stocks featured in this report should never be blindly bought and ignored for the balance of 2006.

I am also making one major change in the format used in this year's report. Historically, some advisors have viewed the report as a contest, and there is a tendency to "swing for the fences." But my goal in preparing this annual feature is not to just offer high-risk home runs but, more importantly, a long list of valuable singles and doubles that will insure that you win in the investment game.

Beginning with this year's report, I have asked the advisors to provide two top picks - one more conservative and one more speculative. By doing so, I hope this report will provide readers with a solid list of stocks with strong fundamental prospects for the year ahead to be considered for your core portfolio, while also offering an exciting list of favorite higher-risk, higher-reward opportunities that are specifically meant for your speculative dollars.

Wall Street Surprise?

"We look for stocks that could double in two to three years," ***Ken Kam****, who oversees the ground-breaking* ***Marketocracy*** *investor Web site. Although his top pick for 2006, Elan, has already doubled since he first recommended it, he still feels that could happen again.*

"My top pick for 2006 is **Elan** (ELN NYSE). In my strategy, the secret to good stock research is to frame the right questions and then ask the people best qualified to answer them. At *Marketocracy*, our m100 members-those with the 100 best investment track records- help us pick stocks, identify the issues, and frame the right questions. Recently, I asked the broader Marketocracy community if they could help me understand the investment puzzle on Elan and Tysabri. I heard back from members that were physicians, multiple-sclerosis patients, nurses, lab technicians, industry executives, scientists, etc. Together, they made me comfortable making Elan the largest position in the portfolio."

"As background for those who are new to this story, Elan and its partner, Biogen Idec, had pulled their drug, Tysabri from the market last February after two patients treated with Tysabri in combination with Biogen's Avonex in clinical trials contracted PML, a rare and frequently fatal disease. ELN fell from $27 to $7 and when a third case of PML was discovered, it dropped to $3. Since then, an extensive review of nearly all of the patients showed no additional cases, and no cases of PML have turned up in patients who took Tysabri alone. In November, the FDA accepted their application and agreed to give Tysabri a priority review.

"There are 400,000 MS patients in the US and 300,000 are using competing drugs. But, those drugs have already failed to help another 100,000 who have stopped using them. For the 100,000 that are not on any MS medication right now the choice boils down to this: Tysabri can cut the risk of a relapse by 50%, but there is a 0.1% risk of contracting PML if using Tysabri in combination with other immuno-suppressive drugs. To put this risk in perspective, a recent study showed the mortality risk for aspirin is 0.2%. So an MS patient, who is comfortable with the risks of taking aspirin, ought to be comfortable with the risk of taking Tysabri. If 25% of this group starts to use Tysabri, they would generate over $600 million a year of sales, 50% of which would go to Elan.

"Citibank, Bank of America, and Merrill Lynch reiterated sell ratings on Elan recently. All three cited a belief that even if the FDA reapproves Tysabri in March, MS patients and doctors will not rush to use the drug until more is known about the risk of PML. But I think Wall Street is underestimating the potential by forgetting to look at the other 300,000 MS patients who are now using other drugs. One of the common side effects of competing drugs is constant flu-like symptoms. Tysabri does not seem to give MS patients these same flu-like symptoms.

"For this reason alone, even if Tysabri were no more effective than other drugs, some of the 300,000 MS patients may switch. MS patients who are on another drug may have to go off their meds for several months so their bodies will be clear of the old drug before they can start on Tysabri. So, one early indicator that Tysabri may be bigger than Wall Street expects is if you start to hear of MS patients going off their existing drugs.

"And, that is exactly what I am starting to hear about; MS patients are going off their meds- against their doctors advice- so that they will be able to start on Tysabri as soon as its available again. This tells me that Tysabri sales are going to ramp faster than Wall Street expects. If 10% of these patients switch to Tysabri, it would mean the potential US market may be more than twice as big as Wall Street expects. Good things happen to stocks that surprise Wall Street to the upside. If I'm right in this assessment, then Wall Street is in for a big upside surprise."

Slots and Drinks

*Supported by a team of highly talented analysts, **Paul Tracy** offers an incredible variety of consistently well-studied and in-depth research. In line with this diversity, his top conservative play is a US slot maker, while his favorite speculation is a Polish liquor distributor.*

"Our top 'more conservative' pick for 2006 is **International Game Technology** (IGT NYSE). The firm is the world's largest slot machine maker. In addition to sales, IGT generates half of its revenues by leasing machines to casinos in exchange for a percentage of the net win. This provides the firm with a recurring stream of high-margin revenues. Thanks to steady expansion in recent years, IGT now draws income from nearly 40,000 machines installed throughout casinos in key gaming markets around the globe. More recently, IGT has also diversified its operations into other promising new technologies, including high-tech player tracking systems.

"Thanks to a stringent regulatory environment, IGT enjoys high barriers to entry and must contend with only a handful of rivals- and has a towering lead, producing more than two out of every three machines found in North America today. With deep pockets and steady cash flows, the company has been able to spend nearly twice as much on research and development as its closest competitors. In a recent poll seven of the top ten most popular video slots were introduced by IGT and among video poker players, all five of the top spots were awarded to IGT products. With a knack for developing games that resonate with players, IGT should continue to remain the clear leader in this high-growth industry for years to come.

"The shares stumbled throughout 2004 and 2005 due to sluggish domestic slot machine sales. However, we believe the core North American market is poised to grow substantially over the next few years as cash-strapped states embrace gaming as a way to generate millions in tax

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revenues. Add to this the impact of strong international sales-Macau is billed by many to be the next Las Vegas- the international outlook is bright and overall earnings are expected to increase at a healthy 15%+ annual clip going forward. IGT has been a portfolio jackpot for many over the years, and odds are excellent that its winning streak will continue.

"Our 'more speculative' play for 2006 is **Central European Distribution** (CEDC NASDAQ). Although based in the US, this company is Poland's largest liquor importer and distributor. It distributes liquors to over 30,000 businesses. CEDC has no effective competition in the Polish market right now and barriers to entry in this market are very high. Although the firm started out exclusively in the liquor distribution business, CEDC has moved aggressively into the distillation market in recent years, buying up several Polish vodka makers. In fact, on the heels of several major acquisitions in 2005, CEDC is now the world's fourth-largest vodka maker.

"Eastern Europe-and Poland in particular- are attractive growth markets. Poland was admitted to the European Union back in 2004 and foreign trade has since increased dramatically and is set to explode even further in the years ahead. CEDC should be a major beneficiary of this trend. One of the most important economic reforms the country implemented was the removal of punitive tariffs on imported liquors. As a result, after May 2004, CEDC reported an immediate 40% jump in sales directly attributable to the removal of that tariff. Prior to that date about 70% of the company's sales came from domestically produced spirits.

"Since that time, however, the mix has been gradually shifting toward imported liquors. CEDC has catered to this trend by negotiating contracts with some of the best-known foreign producers- including Johnny Walker scotch and Jose Cuervo tequila- to ensure sufficient supply at favorable prices. The good news is that these products carry far higher profit margins than liquors produced in Poland. Therefore, as the nation becomes wealthier and consumers gradually shift their spending habits to reflect the reduced tariffs, CEDC's business mix should continue to shift more in favor of high-margin imported liquors.

"CEDC should have no trouble posting 15-20% annual growth over the next five years. In addition, it's worth noting that liquor demand tends to be very stable, even in weak economies. As such, the firm's growth should remain fairly stable over time. Even better, the company's aggressive expansion into the distilling business could offer upside to those estimates. E arnings should handily exceed $2 per share in 2006 and could approach $5 per share by the end of the decade. Assuming Wall Street values the firm at a multiple of 20 times earnings, this stock could easily trade well north of $100 within the next few years."

An Exceptional "Day"

*While our **Top Picks** report is not meant as a contest, we cannot begin without highlighting **Adrian Day**, whose top pick in our 2005 report, Virginia Gold, rose an astounding 251%. His favorites for 2006 are chosen not just for the companies, but for the people who run them.*

"Warren Buffett has said that owning royalties is the ideal business, and perhaps this applies even more so in the capital-intensive mining business. Doug Silver is building a portfolio of resource royalties in his **International Royalty Corp** (CA:IRC Toronto), which is our aggressive pick for the coming year. During his long career as a consultant to the mining industry, Silver built a database of over 2,000 royalties. Taking International Royalty public a year ago, he is attempting to consolidate the highly fragmented business.

"The company's key asset is an effective 2.7% royalty Inco's Voisey's Bay nickel deposit, with revenues scheduled to start this quarter. This single asset should earn IRC C$16 million plus per year over a 30-year mine life. In addition, IRC owns about 60 royalties diversified among ten countries and 14 different commodities (including gold, base metals, oil and gas, and coal).

"The portfolio is generating modest revenues from some of these, while others are close to production. With the increase in the gold price, IRC's revenues will tend to increase. With a market cap of only C$200 million, including C$15 million in cash, we consider the stock inexpensive. In addition, because of its aggressive business plan, we believe the company has high potential.

"For our favorite more conservative play for 2006, we turn to David Gladstone, who has generated high returns for investors over multiple decades, as CEO of Allied Capital, then chairman of American Capital, and now as Chairman and CEO of Gladstone Capital. His new company, which went public last June, is **Gladstone Investment Corp.** (GAIN NASDAQ). The company seeks current income and gains, primarily from loans with warrants.

"Loans are typically in the range of $10 million to $30 million, to established business frequently to fund buyouts and recapitalizations by established management teams. Mezzanine level investments in this small and middle-market segment is an under-served sector, compared with both venture capital and larger business loans; it is also the sector in which Gladstone had his roots. Due to his innate conservatism, the company has been slow to invest its IPO funds, and this has caused some frustration among impatient analysts. Hence, the stock has been weak since it came out.

"Gladstone has made it clear that he won't change his credit standards and other loan criteria just to put loans on the books. That's fine with me. If you are a patient investor and don't need current income, this is a great time to buy. The risk is low, with the stock trading right around NAV (almost entirely in cash), and the outlook for dividend increases as the funds are put to work is very high. The ramp-up period for such companies can be lumpy, a great opportunity for patient investors."

Big Gains for Nano

*While speculative, there is no more exciting area for long-term investors than nanotechnology. And there is no more able guide to this emerging field than **Josh Wolfe**, who has the rare ability to understand the industry from both a scientific and financial view. Here are two of his favorites.*

"My top speculative pick in the nanotechnology arena for 2006 is **Accelrys** (ACCL NASDAQ). As the world leader in molecular modeling software for nanotech researchers, Accelrys has a bright future. The company is emerging from a restructuring with a leaner cost structure and increased focus on large corporations using their software programs for nanoscale science research.

"For a more conservative play on the nanotech sector, my top pick for the coming year is **PowerShares Lux Nanotech Portfolio** (PXN ASE). First a disclaimer: I am a director of Lux Research, which has developed the first nanotech exchange traded fund (ETF) in partnership with PowerShares, although I have no direct input or control of the index selection.

"Making individual stock selections in a field as young and fast growing as nanotechnology can prove risky. Why bet on the horse when you can own the track? The PowerShares Nanotech portfolio tracks a portfolio of 26 stocks which are developing, manufacturing, or funding nanotechnology."

Power Plays

***Elliott Gue** combines the expertise of a trader with a broader focus on long-term fundamentals. While experienced in all areas of investing, he has developed a noted expertise in energy-the source of both of his top stock picks for 2006.*

"Coal continues to account for more than 50% of US electricity generation; low sulphur coal from the Powder River Basin (PRB) of the western US is in particularly high demand. The real supply problem for coal right now remains transportation; a particularly big problem for coal coming from the PRB destined for power plants on the East Coast. Most coal is transported by train and the railroads have been able to push through some aggressive price increases for transporting coal. The industry hasn't been this healthy in decades.

"While the longer-haul rails have seen a nice run, the regionals are overlooked and my favorite play is **Genesee & Wyoming** (GWR NYSE). The North American coal business is booming for Genesee and the firm has instituted several price increases and fuel surcharges while keeping a firm lid on costs. Even better, it has been a major consolidator for the regional rail industry and has made 25 acquisitions since 1985. The long-haul railroads have been selling off their regional networks, preferring to focus attention on the long-haul routes. Genesee has been able to buy up these smaller networks, reduce operating costs, and improve efficiencies.

"My top speculative pick for 2006 is **Uranium Resources** (URIX Other OTC). Nuclear power is a clean, efficient, and reliable power source that's making a comeback globally. Of course, the key fuel for nuclear power plants is uranium and demand for uranium is on the rise. Uranium Resources owns a series of uranium mines in Texas and New Mexico, states with considerable reserves of yellowcake. Production should be over one million pounds this year. Supply contracts are outstanding for about 300,000 pounds of uranium to be delivered annually from 2005 through 2008.

"The problem with Uranium Resources is that its production costs are about $11 per pound. That's fine with uranium prices now more than $30 per pound but it was disastrous in the late 1990s when prices rested under $10. To keep itself alive in those lean years, the company issued a boatload of shares, diluting its shareholder base. Uranium Resources recently secured yet another offering of shares in May, raising an additional $1.5 million.

"This money will finance future expansions of Uranium Resources' mining operations. Provided uranium prices remain high, this stock has the potential to turn the corner on profitability for good. If that happens, the stock should see some very impressive gains. I can't overemphasize this point: Uranium Resources is highly speculative and if you decide to buy the stock you should take only a relatively small position."

Vardy: A New View

I treat new newsletters with some skepticism, but I have no doubts about the future success of the **Global Bull Market Alert***. Editor* ***Nick Vardy*** *has created a service destined to be a "must read" for sophisticated global investors and traders. Here' are his top picks for 2006.*

"Having worked on the public offerings of formerly government-owned banks in Central Europe in the mid 1990s, I am convinced that banking turnarounds are one of the strongest 'top down' investment themes in global bull market investing. My top pick for 2006 is **Woori Finance Holdings Co.** (WF NYSE), a play on Korean banking. While the South Korean market has been up about 50% over the past 12 months, many banking shares have doubled in value.

"Since recovering from the Asian financial crisis of the late '90s, South Korea's banks have been on a tear. The country's financial sector-once in the firm grip of the industrial conglomerates or chaebo- have been transformed into fast growth, commercially-oriented, money-making machines. Loans to the shady chaebo have plummeted to less than 5%, while loans to consumers have soared to 56% in 2005. The average ratio of non-performing loans stands at 1.6%, down from 12.9% in 1999. As a result, South Korea's banking sector is expected to earn $9.5 billion in 2005, topping 2004's record profits of $8.4 billion.

"Cobbled together from two troubled banks in 2001, Woori Finance today includes the second-largest commercial bank in Korea in terms of total assets (including loans), deposits, and the number of branches. It also boasts two Ivy League economics PhDs (Harvard and Penn) on its Board of Directors. During the first stage of its turnaround, Woori focused on making employees and clients accept the very idea of credit assessment. But it is really the dynamic growth of the South Korean economy that will secure future profits.

"Woori's goal is to become nothing less than a one-stop financial supermarket, offering everything from credit cards and brokerage services to asset management and insurance. And with revenue growth exceeding 90% in the last quarter over the same quarter the previous year-and a p/e of less than 9- Woori's stock is inexpensive compared with its other publicly traded competitors. Buy Woori at market and place a stop at $51.00."

"My favorite speculative pick for the coming year is **Yukos** (YUKOY Other OTC), the quintessential Russian 'hate stock' that has quietly quadrupled in the past four months. To most international investors, the saga of oil giant Yukos symbolizes what's wrong with Russia. In April of 2005, the international press was full of Putin's crackdown on capitalism in Russia. Splashed across the front pages of newspapers around the globe were pictures of Mikhail Khordokovsky caged in a Russian courtroom. The sham trial of Russia's wealthiest man and his company Yukos for tax evasion meant that the free market was dead in Russia. At the time, investors were fleeing the country.

"Nevertheless, despite the dire warnings in the press, the Russian market turned around and has been heading north ever since. Having risen from $1.95 to $8.30, Yukos was probably one of the best performing stocks in the world in 2005. Clearly, Yukos is no longer the company it once was, and this must be considered a highly speculative investment. But the turnaround in Yukos' stock price thus far-and what's yet to come in 2006- confirms the Rothschild's maxim: Invest when there is blood on the streets.'"

Beth's Buys

***Beth Gaston Moon**, with **Schaeffer's Investment Research**, uses contrary analysis to find fundamentally and technically strong stocks that are out-of-favor. For 2006, she goes for ground shipping as a conservative play and "shoots for the moon" with a drug speculation.*

"My conservative pick for the coming year is **FedEx** (FDX NYSE). The stock earns a *Schaeffer's Equity Scorecard* rating of 8.0, thanks to superb price action that has been forged against a backdrop of investor skepticism. FDX shares have rallied strongly since late September, using the support of their ten-week, ten-day, and 20-day moving averages along the way. In December, the shares powered through the 100 level. Not only is this century mark significant from a psychological perspective, but it acted as resistance on FDX in December 2004 and March 2005. The shares are now trading near all-time highs.

"Options players have gathered in the bearish camp, procuring bearishly configured put positions by the delivery truck-load. This is reflected in the security's Schaeffer's put/call open interest ratio rating of 0.81, which is higher than 94% of the past year's worth of data. Additionally, Zacks data reports that there are just as many analysts who rate the stock a 'hold' as they do a 'buy.' Should FDX continue to saunter higher, some of the ambivalent analysts could move to the bullish camp. Brokerage upgrades could have positive short-term repercussions on the shares. Fundamentally speaking, FDX has a decent track record during earnings seasons, issuing positive surprises in four of the past five quarters. The leading express transportation company is next due in the earnings confessional in early March.

"My speculative pick for 2006 is **New River Pharmaceuticals** (NRPH NASDAQ), which has a market cap of $1 billion and an average trading volume (during the past three months) of just over 100,000 shares. But this specialty pharmaceutical company was one of the top initial public

offerings in the healthcare sector during 2004. From its debut date of August 5, 2004, through the end of that year, the shares rallied $73.5% while the offering raised $246.9 million. In 2005, the stock gained an additional 247%. While its rally has been dramatic, it has also been steady. NRPH has used the support of its ten-week and 20-week moving averages to moved gradually higher ever since its initial debut. In other technical news, the shares have shown solid relative-strength performance compared with both the AMEX Biotechnology Index and the AMEX Pharmaceutical Index.

"The stock remains somewhat of a hidden gem, attracting little attention from Wall Street or Main Street. According to Zacks, not a single analyst has NRPH on its radar screen. Meanwhile, the stock is not yet optionable, so an entire faction of speculative players is currently shut out (making the equity's rally that much more impressive). NRPH is clearly not an 'overloved' name, and therefore has room to run higher as people begin to warm up to the shares. Finally, the equity stands to benefit from short-covering support. Last month, the number of shorted NRPH shares increased by nearly 12%, leaving almost 11% of the stock's float sold short. It would take nearly a week to cover all of these positions at the security's average daily volume. If the shares continue to push higher, a short squeeze could develop, providing NRPH with some additional short-term buying power."

"Feel the Profits"

*Agora Publishing puts out some of the most exciting investment advice around, and the top speculative pick from editor **Karim Rahemtulla** is no exception. Here, he looks at a play in haptics-the science of feedback through feel.*

"You can literally 'feel the profits' at **Immersion Corporation** (IMMR NASDAQ). Haptics is the science of providing feedback to the user through 'feel.' In the case of Immersion, it has developed technology that allows users to feel vibrating sensations when they use a device. This is not like your phone vibrations, but vibrations that are synchronized to movements and touch.

"The best example is when you are playing a car-racing video game. When the car hits a bump, wall, or another car, the sensation of that 'hit' is sent through the controllers into your hands so you can literally feel what has just happened. Or, in medical technology when a user is practicing on a simulator, the Haptics allow the user to feel his way through a procedure by replicating what it would feel like when operating in a real situation.

"Immersion sued both Microsoft and Sony. Microsoft settled in 2003 by paying Immersion a lump sum payment of $25 million and investing in the company, as well. Sony continued to fight it out. In September 2004, the courts ruled that Sony infringed and had to pay IMMR over $100 million and stop selling its PlayStations in the US. The PlayStation and associated games generated the bulk of Sony's profits last year- a number in the hundreds of millions.

"Sony has appealed the ruling and was forced to post a $102 million bond during the appeal. In addition, the company was ordered to pay Immersion Corp. royalties on the products that it is selling and products that are sold during the period of infringement as decided by the courts. After the Sony ruling, several smaller companies immediately signed license agreements with Immersion to avoid a court battle that they would most likely lose as well.

"Right now, the shares are trading at $6.55 per share-a market cap of $160 million. This year the company should do about $30 million in sales-without counting the potential revenues from Sony. If the Sony appeal were to fail-as now appears likely- the company would take in over $4 per share in cash plus higher revenues from a negotiated royalty agreement. The court has ordered Sony to pay IMMR royalties during the appeals process of 1.37% on every unit, controller and game sold that uses IMMR's infringed technology, and has rebuffed every argument Sony has made to date. What action should speculators take? Buy IMMR."

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Going for Growth

***Jamie Dlugosch** is dealing with growth in a myriad of ways beyond the potential of his two picks for 2006. He is facing a rapidly growing following as an editor and money manager, and with his second child due at month end, a growing family. Congratulations, Jamie.*

"As a Rational Investor I tend to take a contrarian viewpoint with respecting to identifying stocks for a portfolio. Typically I want to own stocks that others are selling especially when the company being sold has a long history of success and brand equity. Fittingly, my 2006 conservative pick is **Merck** (MRK NYSE). In the wake of the Vioxx scandal the shares have been trading precariously near its lows.

"In 2005, the company withstood adverse judgments against the company in one Vioxx case, saw a mistrial in another, and was exposed for having deleted information about the drug in a previously published medical journal. One would think that such news decimated the company, right? Instead, shares actually gained a very small amount in 2005. Such performance is indicative of a stock that was dramatically oversold when Vioxx news first hit the company in 2004. Add in the nearly 5% dividend and investors had a fine year compared to the major indexes.

"Looking forward, I view the performance as base building for future gains. I like to compare MRK to the old Phillip Morris, now Altria (MO). Indeed the damage from litigation is painful, but tobacco stocks, a form of a drug, did nothing but appreciate in the wake of record settlements against the industry. MRK is a franchise under attack and that is a perfect time for Rational Investors to establish a position. There may be bumps along the road, but the risk appears to be worth the potential reward. My Rational target for MRK is $50 per share.

"Meanwhile, my speculative pick for the coming year is **Sirius Satellite Radio** (SIRI NASDAQ). One of the more deleterious consequences of the technology crash has been the reduction of risk taking. Corporate boardrooms have become exceedingly conservative and stock investors shun risk as if it were bird flu. The general environment for innovation has literally dropped as dramatically as the share prices of some of the former highflying tech companies.

"Rational Investors can capitalize on this inefficient behavior by peppering a portfolio with a handful of companies of the more speculative nature. The discounts for true innovators, as compared to previous periods of more active risk taking like the late 1990s, should be viewed as an opportunity. Sirius Satellite Radio (SIRI), my speculative stock of the year, is a prime example. In 2005, SIRI made tremendous strides in implementing its business plan. The company more than doubled its subscriber base in the year, raised guidance multiple times, and benefited from Howard Stern's pending arrival in January.

"Its reward for such performance is a stock in retreat. That makes little sense to me at a time, when growth will be accelerating for the foreseeable future. With huge audience potential, rising rates, more features including streaming video, and advertising revenue on the horizon investors should use the weakness and current aversion to risk to establish a position in SIRI. In the short run, 12 months or less, SIRI could run significantly higher to $10 or more. My long term target is $20."

A Global Guru

*Having lived and worked all over the world**, Vivian Lewis** is comfortable recommending stocks in virtually any country on the globe. Her favorite selections for the year ahead are a ride on the rails just north of the border and an "Indian Giver" in Bangalore.*

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"While I expect a pickup of inflation, I do not expect there to be a decline in world trade. So I am focusing on a North American growth stock as my favorite conservative idea for 2006. **Canadian National** (CNI NYSE) is the continent's railroad with the highest profit margin and the only one operating north to south and east to west.

"Having taken over US carriers Wisconsin Central and Illinois Central, its tracks now reach to the Gulf Coast (Texas and New Orleans), and Mexico. Expansion south of the border means CNI did not duplicate lines while gaining a new hub in Chicago. It also pushed to new ports like Prince Rupert (British Columbia), which supplements Vancouver to deal with the inflow of goods from China, mostly intermodal (containerized).

"Because of its route advantage, it has pricing power. But it has also enhanced efficiency. Q3 results were excellent. Higher haulage prices were matched with better logistics. CNI now runs shorter freight trains on a fixed schedule rather than waiting around to make up long trains. This has fed right to the bottom line. Diluted earnings per share at C$1.47 was up 24% while net income increased 19% to a record.

"CNI benefited from a longer-term operating ratio decline to 63.3%, well below 76% operating ratio of 2002. The third quarter operating ratio however was up 2.1 percentage points. The lower a railway's operating ratio, the more efficient it is. Despite the modest rise, the Montreal-based rail giant has the lowest operating ratio of any North American railway major. This is one of the reasons CNI's record 9-month free cash flow hit $1.058 billion, up 33% from prior year levels. The firm benefited also from favorable income tax adjustments."

"For my top speculative pick, I like an 'Indian giver'- **Infosys Technologies** (INFY NASDAQ). Infosys is a major player in the Indian IT (information technology) market, run out of Bangalore. It contracts with international companies to provide them with services to meet their software needs, and last year opened offices in the US as well as other Western countries to feed more business to India.

"The stock price has been under pressure for a while and the odd reaction to good results is typical of how Indian tech companies have performed lately. It barely gained in 2005 and there is always someone (usually but not exclusively in Mumbai) ready to say the golden goose is cooked. Other rumors claim that its workers are discontented (hah! if you were living in India you would jump at the chance to work at a lovely air-conditioned campus like INFY's).

"The stock recently fell despite exceptional results for the quarter ended December 31, 2005. Third quarter revenues at $559 million, were up 32.2% from the corresponding quarter last fiscal year. Earnings per ADR increased to $0.53 from $0.42. Consolidated earnings per ADS expected to be $2.04-2.05 for fiscal 2006, showing growth of about 30%."

Wyatt's Winners

Ian Wyatt *has long been know as an expert on uncovering lesser-known, emerging firms, particularly in the high tech and Internet arenas. He has also developed an increasing expertise in resources. Hence, his top picks are "SOLD and gold"-an Internet play and a resource trust.*

"Bought or sold a home or condo recently? Chances are you used the Internet at some point or another in the process. According to the National Association of Realtors, 77% of home buyers use the Internet for home buying research. And yet only $800 million or 4% of real estate ad dollars are spent online. This creates a massive opportunity for **HouseValues** (SOLD NASDAQ), which is our speculative pick for 2006.

"This a pure play on the high growth Internet advertising space. HouseValues targets the 1.2 real estate agents that spend $11 billion in advertising annually. The company offers advertising solutions that provide realtors with local leads of individuals who are looking to buy or sell their

homes. The company aims to educate realtors about online advertising, and provide them with the necessary tools to grow their business. As of this fall, HouseValues had 15,000 realtors signed up for its subscription service, paying $139 - $1,299 per month. In the recently reported third quarter, the company reported an 82% increase in revenues to $23.3 million, with net income of $4.3 million or $0.16 per share.

"In spite of continued solid financial performance, HouseValues shares are trading at $13, down 35% from their July high of $20. The main reason? Fears that a housing slowdown will mean lower sales for HouseValues. What investors appear to be missing is the fact that realtors spend more on advertising, not less, during more sluggish housing markets. As a result, investors can today buy HouseValues shares at just 18x 2006 consensus earnings estimates. For a company expected to grow 50% in the next 12-months, this seems downright cheap.

"Meanwhile, I never thought I would say this, but for my conservative pick is **StreetTracks Gold Trust** (GLD NYSE), an ETF that tracks the price of gold. Its purchases gold and trades at 10% the price of an ounce of gold. In fact, it's never been easier for individual investors to buy gold. We believe that this ETF will only make it easier for investors to speculate on the price of gold, and could be one of many growth catalysts for gold in the coming years."

"Important in our assessment is gold's relationship to oil. The price of gold bullion and crude oil are highly correlated. Over the past 60 years, one ounce of gold has on average purchased 15.2 barrels of oil. With gold trading at around $525 per ounce and crude oil trading at $59, this ratio today stands at 8.9. Historical data shows that when the ratio falls below 11 (meaning one ounce of gold will buy you 11 barrels of oil), the ratio not only will come back in line with the average, but that speculation drives the ratio above the historical average of 15.2, as has been evidenced every time that the ratio fell below 11.

"With huge demand coming out of the booming Asian economies, oil is unlikely to decline below $50 anytime soon. So, let's assume that the price of crude oil falls to $50 per barrel. Using the historical 60 year average ratio of 15.2 barrels of oil per ounce of gold, this would mean that the price of gold would move from $525 per ounce to $760, an increase of 45%. Assuming the ratio moves above 15.2 on over-speculation in coming years, and we could easily be looking at $900 or even +$1,000 per ounce of gold."

Dressed for Success

*As manager of the exceptional Al Frank Funds, **John Buckingham** is a firm believer in diversification, and is always hesitant to select a "favorite." But for this annual feature he was willing to choose a retailing stock that he sees as particularly well-dressed for success.*

"While we believe in broad portfolio diversification, we think **American Eagle Outfitters** (AEOS NASDAQ) is an excellent selection for 2006. It's an all-the-time intense race, vying for the wardrobe dollars of North American teens. And for most retailers, it's difficult to remain on course all the time. Case in point: In its start to the holiday season, American Eagle badly stumbled out of the gate. Investors were expecting November same-store sales growth of 10.2% but received a mere 1.7% instead. The month started out slowly, with sales of its women's lines suffering a decline, though week four turned positive. And the company's online store, AE.com, realized a 39% year-over-year sales increase.

"Still, investors worried that a fault so early in the season suggested a high likelihood of further misses later in the year. Flash forward to early January when American Eagle had been the subject of significant negative press due to a perceived excess amount of discounting at its stores during the holidays. If there was discounting going on, it looks like it worked, and the stock rallied as same store sales for December came in up 9.8% from a year ago, blowing away the estimates for a rise of 2.9%. Total sales rose a very robust 15.5%.

"We never invest on the basis of short-term results and regardless of what the next couple of months may bring, American Eagle remains one of our favorite stocks, regardless of sector. The shares trade for a modest 12 times projected earnings, the balance sheet is in great shape and the dividend yield is in excess of 1%. What's more, insiders have recently scooped up one million AEOS shares at prices a couple of bucks below the current quotation!"

Stack's Stocks

*For his 2006 favorites, **Jim Stack**-long one of my favorite advisors and money managers-chooses two stocks offering foreign diversification. His more speculative pick is a Japan ETF, while his more conservative pick, Diageo, "offers the benefit of a healthy yield."*

"**Diageo plc** (DEO NYSE) is a UK domiciled firm that produces and distributes premium alcoholic beverages. The company manages nine of the world's top 20 premium spirits brands by volume. DEO has over 20% of the US spirits business by volume, almost twice the No. 2 competitor. It is an especially appealing idea in a late-stage bull market because its business is largely immune to economic fluctuations. Diageo's brand strength and geographic reach enables the company to deliver revenue growth and cash flow generation in a consistent fashion. The recently increased dividend provides investors with a net 3% yield.

"Among foreign markets, we currently favor Japan, where we recommend investors consider **iShares MSCI Japan Fund** (EWJ ASE). Our interest in this major market is a result of the recent improvement in Japan's domestic demand, and a possible end to the country's deflationary pressures and banking problems. As an exchange traded index, the iShares offer an easy alternative for those wishing to capitalize on this latest evidence of a sustainable recovery in Japan. Not only are these shares easily traded on the NYSE, but they avoid the short-term redemption penalties and some of the stock-picking and sector-focus problems that have plagued many actively managed Japan funds in recent years."

Wild Card Waves

ChangeWave Biotech Investor *is a recent addition to the newsletter world, carrying on the ChangeWave tradition of uncovering emerging opportunities. Editor **Michael Shulman** selects two stocks with "wild cards" that bolster their 2006 prospects.*

"My favorite more conservative pick for 2006 is **Alkermes** (ALKS NASDAQ), which is involved in drug delivery technology focused on schizophrenia, alcoholism, and diabetes. The company should see major upside catalysts in 2006: the FDA approval of Vivitrol sometime soon with marketing to begin in the second quarter; more clinical data for the long lasting version of Amylin's Byetta, no later than mid-year; more data from the inhalable insulin project with Eli Lilly; trial data for the use of Symlin to combat obesity sometime by mid-year; and new labeling for Risperdal Consta, the anti-schizophrenia drug developed by Johnson & Johnson and turned into a long lasting version by ALKS. *(Editor's note: Readers should be aware that the shares have risen sharply in recent trading.)*

"The risks are very few, except disappointing sales of Vivitrex being launched by partner Cephalon in the second quarter. A wild card in the situation is that Alkermes is developing its own, 100%-owned drugs and may take this a bit further with a small acquisition. I don't think the Street will like this. The stock is moving right now due to the FDA Approvable Letter for Vivitrol but still has a long way to go. I believe it will more and more be a play for conservative, Big Pharma guys. The company is beautifully positioned and faces no scientific (and only very limited regulatory risk). The stock should continue to climb in the first half of the year.

"My top speculative pick for 2006 is **Isolagen** (ILE NYSE), a cosmetic medicine firm. This is a busted microcap that is a potential ten bagger in two years. What are the upside catalysts?

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Almost anything would help ILE, but a successful trial in the US (approved in Europe) for the Isolagen tissue regeneration process (using the patient's own cells) would light a fire under the stock. Hiring a permanent CEO wouldn't hurt either. And, although the stock is under $2, if it gets above $5 Isolagen will pop again due to institutional buying.

"The risk is that the new trial for the Isolagen process is still small-perhaps too small. The upside is that small also means the company can manage the doctors in the trial- untrained doctors, not the process, were the "problem children" in the trial that did not produce the data ILE needed for an FDA approval. If this trial blows up, you will be able to buy the stock under a buck.A wild card could be a takeover. The board may not be hiring a CEO because they plan to sell the company once trial data comes in. The stock is way down in price but I think investor interest will increase slowly, adding pennies a week to the stock price, with natural ceilings at levels such as $2. If positive trial data comes out, boom."

A Technical "Eye"

Yola Edwards *s an expert in technical analysis with a particular emphasis on Canadian stocks. For her top pick, she looks at speculative biopharmaceutical firm based in Toronto, trading both there and in the US. Here, she turns her technical eye to a play on eye disease.*

"**QLT Inc.** (QLTI NASDAQ) is dedicated to the discovery, development, and commercialization of therapies to treat eye diseases, cancer, and immune disorders. Combining expertise in ophthalmology, oncology, and photodynamic therapy, QLT has commercialized two products to date, including Visudyne, which is the most successfully launched ophthalmology product ever. But the stock has dropped precipitously over the past two years from $30.70 to $5.97 as its Visudyne product is being challenged by rival Genetech's anti-blindness drug Lucentis, which is still in clinical trials. Genentech states that in 'head-to-head tests against Visudyne, Lucentis performed better' and the product will be available late next year.

"It is estimated that approximately 1.2 million Americans, are afflicted with 'wet' form macular degeneration, a disease where the central and most important area of the retina, the macula, degenerates. The numbers of those afflicted are expected to rise as baby boomers age. The government estimates that by 2020 there will be 2.9 million people with advanced age-related macular degeneration (AMD). Currently about 500,000 cases of 'wet' form AMD are diagnosed globally each year.

"In December, company officials announced that the company is cutting its 2006 sales estimate for Visudyne to a range of $480 - $485 million (all figures in Canadian dollars) from the previous range of $500 - $530 million. Acting CEO Robert Butchofsky also announced an extensive restructuring plan. Here are the highlights:

1. QLT will restrict its focus to ophthalmology and one other therapeutic area, 'which will be selected based on milestones in 2006.'
2. Major staff cutting which will see the work force reduced by as much as 46%. Half the cuts will take place as early as January with the remainder achieved through divestitures of non-core operations, assets, and programs.
3. A 20% reduction from 2005 levels in combined research and development (R&D) and selling, general and administrative (SG&A) expenses in 2006.
4. Implementation of new processes to ensure greater financial discipline and cost control and to streamline clinical development planning and management.

"These initiatives are expected to result in annualized savings of about $10 million but the company will take a restructuring charge of approximately $5-$6 million in the fourth quarter. The company has $448.6 million in cash and only $172.5 million in debt. There are 92.5 million shares outstanding with a book value of just over $8 per share. Also, QLT announced that it will double the size of its previously announced share buy-back program to $100 million.

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"The cost cutting measures are a start but may not be enough and the share buy-back program seems odd in my opinion but QLT is a buy, even with the announcement. All the bad news should now be in the stock price and with the high volume on December 8, 2005 (about 6.6 million shares changed hands on the Toronto exchange and Nasdaq) the selling pressure should be over. Any hint of good news from here will propel the stock forward. This is clearly a turnaround situation so risk-averse investors should stand clear.

"Although QLT Inc. has been a total disappointment, the stock does appear to be trying to form a bottom and the moving average convergence/divergence oscillator (MACD), as well as the momentum indicator have been diverging positively since mid-September. The stock has been trading in a very narrow range over the past four months and appears to have formed a bullish declining wedge, which is now complete. The stock has broken out to the upside out of the wedge and the January 6, 2006 high $6.80 has also confirmed a recent four-week high and a continuation of higher prices to come. The stock should rally to about $9 over the next four to six months with a possibility of a further rally to $12 by year-end."

A Bull on Bear

*Although best known for his trading expertise, **Chris Johnson** is equally adept at uncovering longer-term opportunities. Here, the director of quantitative research for**Schaeffer's Investment Research**, banks on one investment-investment banker, Bear Stearns.*

"My top pick for 2006 is **Bear Stearns Co.** (BSC NYSE). As 2006 opens, one of the sectors that appears to be positioned to fare well is the financials, including the Broker/Dealer companies in the group. Among this subcategory, Bear Stearns stands out as a potential leader as a result of its current technical, fundamental, and sentiment picture. From a fundamental perspective, BSC has continued to best analysts earnings expectations through 2005 by an average of 12%. Looking forward, the analyst community's expectations for the next two quarters remains very tame as estimates call for a pull back in earnings growth.

"Technically, the company has provided solid performance as it remains in a long-term technical up trend with price activity finding long-term support in place below current levels. On a relative strength basis, the stock has lagged its peers recently as the Broker/dealer has gained strength. Despite this, the company appears to be ready to play catch-up from a technical perspective as its longer-term relative strength compared to the Broker/Dealer Index has just put in a bottom similar to that placed in January 2004.
"Sentiment on the stock remains fairly pessimistic, indicating that sideline money available to move into the stock higher is present. For example, the current short interest ratio for the company is among the highest in the Broker/Dealer group. In addition, the options activity that we monitor continues to reflect bearish sentiment as put trading outpaces calls.

"Finally, the analyst community has been down on the stock as 73% of the analyst tracked have the stock at a hold or lower. This indicates that there is room for the analyst community to upgrade the stock, thus moving more buyers into the issue. Given these points, I believe that BSC is primed to perform as a strong representative in what I believe will be one of the stronger performing sectors for the year 2006."

A Profitable Pair

*Here, we look at two very talented financial seers. Both offered just a few sentences about their 2006 picks, yet both have such strong records, we need nothing more. Here, we turn to **Frank Holmes** of US Global Investors, and newsletter advisor, **Eric Roseman**.*

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"With stocks trading at a four-year high and largely expensive, defensive issues should perform better than the broader market in 2006," says **Eric Roseman**, whose top pick in 2005, Foundation Coal is up 100% in price. For 2006, the editor of ***Global Mutual Fund Investor*** and ***Commodity Trend Alert*** says, "Consumer non-durables, including beer company stocks, have lagged since 2003 and offer excellent value in a low value environment. My more conservative pick for 2006 is **Anheuser Busch** (BUD NYSE) and my more speculative pick is **Molson-Coors Class B** (TAP NYSE). Both companies are loaded with free-cash flow, trade at book-value, and are well off their highs over the last three years."

"**Northern Orion** (NTO ASE) is a favorite for the coming year," says **Frank Holmes**, whose top pick for 2005, Wheaton Silver rose 38% in the months following his recommendation, before settling back in price. For this year, he says, "Northern Orion has $1 per share cash. It trades at six times cash flow (compared to Freeport McMoran, which trades at 15 times cash flow). Northern Orion is developing a $2 billion deposit called Aqua Rica, which would make the stock worth $20 per share at current metal prices."

Bernie's Best Bets

***Bernie Schaeffer** has been so well-respected in the financial advisory community for so long, he hardly needs introduction. Here's his top picks for '06, based on his proprietary "expectational analysis" strategy, which combines technical, fundamental, and sentiment strategies.*

"My conservative pick for 2006 is **Moody's** (MCO NYSE), which provides credit ratings and research and analysis covering debt instruments and securities in the capital markets worldwide, as well as credit assessment services, credit training services, and credit process software to banks and other financial institutions. The corporate bond market has been attractive of late, as credit default swaps have become a massive market among institutions, particularly the growing hedge-fund industry. Given that MCO provides analysis for this area of the market, demand for their products should continue to shine.

"Fundamentally, the company has shown excellent earnings momentum. During the past five quarters, the firm has surpassed the consensus earnings estimate on the Street by an average of around 12%. Turning to the stock's technical picture, MCO has outpaced the SPX on a monthly basis since January 2000. In fact, during this time frame, MCO soared an astounding 548% while the broad-market barometer has slipped by nearly 9%. The stock is facing long-term support at its ten-month and 20-month moving averages, trendlines it has not closed a month below since March 2000. These trendlines should continue to be supportive through 2006.

"Despite this impressive combination of fundamental and technical strength, signs of pessimism continue to plague the shares. Wall Street is giving the research firm the cold shoulder, with 90% of the analysts following MCO rating it a 'hold' or worse. Any upgrades or additional coverage as the firm sees its earnings grow could add to the stock's rally. Short sellers have begun to feel the pinch of the equity's impressive uptrend. While the number of shorted MCO shares has rolled over from its peak, a continued unwinding of this accumulation of bearish bets could provide the stock with ample fuel for a strong rally higher.

"My top speculative pick is **Western Digital** (WDC NYSE), one of the largest independent makers of hard disk drives and the second-largest disk driver maker in terms of market share. Disk-drive makers are benefiting from strong unit growth in PC sales and diversification into other consumer-related areas such as music players, digital video recorders, set-top boxes, and video game consoles. This diversification beyond the PC market is not only an engine for growth, but should also result in less earnings volatility.

"The company's September quarterly earnings of 31 cents per share surpassed the consensus estimate and grew 126% on a year-over-year basis, while revenue shot 23% higher. In addition, the firm announced in late November that it now expects earnings of 34-37 cents per share in the

December quarter, compared to its previous guidance of 31-34 cents, due to better-than-expected pricing and strong demand. Furthermore, WDC has authorized an additional $150 million for share repurchases.

"Despite the company's strong earnings growth and diversification of revenues, WDC trades for a price-to-earnings ratio based on one-year forward earnings of about 11, and its market capitalization is a modest $3.2 billion. This is hardly a stock pursued by overzealous buyers. Wall Street has by no means jumped aboard the WDC bandwagon. Zacks reports that just five of the 14 analysts following the firm rate it a 'buy,' while seven rate it a 'hold' and two maintain 'sell' ratings. This configuration leaves plenty of room for upgrades stimulated by continued strong earnings growth and share price recovery. In fact, Bear Stearns lifted its investment rating for the disk drive group on December 2.

"Short covering represents an additional source of potential buying power for WDC, as short interest is very heavy at roughly seven times the stock's average daily trading volume and 10% of the security's total share float. While WDC shares have rallied sharply from their low under 2 in September 2001, they remain far below their all-time high of 54.75 from August 1997. Based upon the company's growth potential, its modest valuation and market cap, and the potential kicker from analyst upgrades and short covering, it is not unreasonable to expect a rally to the low 20s in 2006 for a gain of about 50% from current levels."

On the Mark

Jon Markman *has just joined the prestigious Phillips Publishing group, with the launch of his* **Trading Advantage**. *For "swing traders," with a time horizon of one to several months, his analytical research and advice is as good as it gets. Congratulations, Jon.*

"If there is one corner of the economy that has really taken flight, it is the aircraft assembly business, due mostly to new orders from world airlines for the latest set of planes from Boeing. When a single niche of the vast US economy is showing such strong growth, it shows up in ways you might not expect. There are many large-cap beneficiaries, but there are also many smaller beneficiaries, such as our top pick for 2006, **AAR Corp.** (AIR NYSE), a $775-million company that provides maintenance and supply chain assistance to commercial and military clients, a well as makes pallets and other transportation materials for the military.

"This is not just some flash-in-the-pan momentum move. The stock is cheap on almost any metric, with a p/e and price/sales multiple well below industry peers and its own estimated forward growth rate. And the news flow has been very positive, with recent wins including a pallet contract for the Air Force, a reconfiguration of ATA Airlines 737-300/500s and a Royal Air Force AWACS, contracts with Mesa Air for supply-chain help, component assistance for BAE Systems, and success with its new and refurbished jet engine sales and leasing arms.

"Like many companies, AAR is looking for growth in Asia. It opened a sales office in Tokyo and Shanghai recently with an eye toward providing airline and military operations there its supply-chain, component distribution and maintenance expertise. Back at home, the company was chosen by United Airlines to be its exclusive maintenance provider for 737 aircraft. We'd add that corporate officer James McDonald bought 6,000 shares on the open market in October at $15.49. He turned a nice 50% profit since then, but his flight is probably not even half over.

"Late-coming traders may wish to wait for shares to come back and test the recent breakout at $22 before taking a seat. After getting crushed in the post-9/11 rout of anything to do with the aircraft industry it has rebounded dramatically of late. Since last November, the shares have jumped 50% to a new five-year high on rising volume, yet I don't think they are done. The stock should go on to challenge its 1998 high of $32 in the next 12 months."

"Renaissance" Investing

*"Foreign stocks and natural resources are poised to lead the way in 2006," says **Mark Skousen**, a true "renaissance man" noted as an advisor, economist, professor, and author. (His latest book updates Ben Franklin's autobiography.) Here's his best bets for 2006.*

"While I expect the US economy to survive and prosper in 2006-despite continued inflation and excessive government spending- this year will see foreign stocks and natural resources doing better than domestic stocks. Given that scenario, I have a pick in both of those areas for you.

"Let's start off with a conservative natural resource stock (that also happens to be a foreign company). In my judgment, silver stocks offer greater potential for profits than gold. Silver is used far more in industrial settings and faces an annual supply shortfall. On top of that, foreign governments have cut back their sales, and the US has stopped selling its silver hoard altogether.

"My more conservative selection for 2006 is **Pan American Silver** (PAAS NASDAQ). Buying shares of Pan American is a great way to profit from higher silver prices. With mines in Mexico and Peru, the Vancouver-based company produced 13 million ounces this past year and it has turned the corner in profitability. Overall, with these two picks in your portfolio, you'll be set to take advantage of the hottest trends over the next year."

"My more aggressive pick is **Sohu.com** (SOHU NASDAQ). This is a great play on one of the fastest growing sectors in China. Sohu.com is China's number two Web site and search engine in terms of online ad revenues, including advertising, search services, online gaming, and e-commerce through its seven Web portals.

"Sohu's goal is to imitate the success of Yahoo and Google in online advertising. If it achieves this goal, it will be a big winner. Sohu.com was losing money two years ago, but has since experienced a sharp turnaround in revenues and earnings. It has a healthy 26% profit margin and a forward p/e of only 21."

Coolcat's Pair

*"It doesn't pay to fight with Mr. Market," says **Kevin Kennedy** who focuses strong price momentum, strong technicals, and a strong buy and sell discipline. For speculators, he looks to Peerless, a play on digital documents. For conservative investors, he picks Prudential.*

"My speculative pick for 2006 is **Peerless Systems** (PRLS NASDAQ), a provider of advanced imaging and networking technologies and components to the digital document market. It is pursuing a strategy that would combine Peerless' new imaging technologies with third-party co-processors onto a single chip. This would enable the penetration of high-volume, mid- and lower-end printing markets. Peerless has been aggressively pursuing two separate design-win opportunities, and signed three license agreements with a combined value of $4.1 million in the third quarter.

"Third-quarter revenue was $9.6 million, up 93% from last year's third quarter. Engineering services and maintenance revenue was $3.2 million versus just $0.4 million reported in last year's comparable quarter, with the sharp increase resulting primarily from $2.0 million received for quarterly development services performed for Kyocera-Mita. Third-quarter net was $1.0 million, or $0.06 per share, up from a loss of $1.3 million, or $0.08 a share, in the third quarter last year.

"My more conservative pick for the coming year is **Prudential Financial** (PRU NYSE), which is made up of a group of financial services companies. With more than $500 billion in total assets currently under management, Prudential Financial serves individual and institutional customers

worldwide and includes The Prudential Insurance Company of America, which is one of the largest life insurance companies in the United States.

"Together, these companies offer a variety of products and services, including life insurance, mutual funds, annuities, pension and retirement related services and administration, asset management, securities brokerage, banking and trust services, real estate brokerage franchises and relocation services. The company updated its guidance in early December and said it expects full-year earnings per share in the range of $4.85 to $4.95 for 2005 and in the range of $5.40 to $5.60 for 2006."

Charge Up Your Portfolio

As editor of **The Utility Forecaster**, *it should be no surprise that **Roger Conrad** has developed the leading reputation on assessing utility stocks-ranging from traditional utes to other sectors such as telecom and water. Here he charges up a pair of favorites for the year ahead.*

"Multi-state electric and gas utility **Aquila** (ILA NYSE) is my top pick for more aggressive investors. Time and again, battered regulated utilities have proven their ability to recover from the brink of doom, generating huge profits for those who bought when prospects looked bleakest. Aquila should be a poster child for that rule in 2006. The company has now shed virtually all of the cash-draining merchant power assets that once threatened to shove it into Chapter 11. It's now in the process of selling several utility franchises (at prices above expectations), for the purpose of reducing its hefty debt load.

"When it completes these transactions this summer, the company's long-suffering credit rating will get a boost from all three major raters. At that point, all management will have to do is continue to build rate base through planned construction projects and related rate increases, and watch cash flows rise. Even in a best case, the company is probably a couple of years from paying a dividend. But when it does, the shares will almost surely be trading at 10 or higher. That's a mighty gain from current levels. Aquila is not for the risk averse, but it's a solid speculation for everyone else up to 5.

"For my more conservative play for 2006, I recommend a master limited partnership. These investment vehicles have tumbled in the past few months, mostly due to fear of volatile interest rates and a recommendation by the president's tax panel to eliminate their tax advantages. **Enterprise Products Partners** (EPD NYSE) has been no exception. But the LP's results have gone in precisely the opposite direction, as its portfolio of energy pipeline, processing and storage assets-which includes vital links to rapidly growing deepwater Gulf of Mexico production-has continued to perform well.

"Distributable cash flow nearly tripled over the past year, fueling a steady 8.9% boost in the dividend. And at 1.2-to-1, coverage is adequate to finance further hikes, even leaving out expected growth. Now yielding over 7% and on track for strong, long-term growth, Enterprise is a solid buy for income and some growth up to 28. The stock is out top income pick for the coming year?"

Gold: "True Wealth"

*"Gold is true wealth; it is the world's oldest currency and it rises as people lose faith in paper currencies," notes the **Pamela & Mary Anne Aden**, experts in demystifying the relationships between resources, currencies, stocks, and bonds. Gold tops their 2006 list.*

"Gold has been rising for nearly five years in a major bull market and should continue to shine in 2006. During that time it has outperformed both the stock and bond markets, rising on average

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20% per year. For a number of fundamental and technical reasons, we believe gold will continue rising in 2006, again outperforming stocks.

"China's growing global and economic strength, and the major power shift that's slowly taking place. This alone suggests that the government will have to keep printing money to pay for all these expenses. This money is created out of thin air and the more money that's created, the more the money supply grows, and the more worthless that money becomes. This is the direct cause of inflation and it means that over time, your savings and income will continue to deteriorate.

"The debt and deficits are the largest in world history and there's no sign this mega debt trend is going to end soon, or that it can, due to the war on terror, aging baby boomers and their growing demands on future government spending. The economy could sink into deflation due to the debt load. As a result, the Federal Reserve will take the better option, chosen by governments throughout history in order to keep it all together, which is inflation.

"The Fed, however, is currently in a dilemma. It's been raising interest rates for the past two years and the yield curve has now inverted. This usually precedes a recession and in their latest report, the Fed signaled rate hikes are now likely near an end. If so, the Fed will have lost an important weapon in its fight against inflation and it could eventually be forced to take a 'come-what-may' route, regardless of how high inflation goes.

"We believe this is what gold sees as it looks ahead and this combination of factors is the main reason why gold's been rising in a bull market since 2001, and why we've been recommending it for four years now. This is the basis of gold's mega uptrend and why it'll likely continue to rise this year, probably again keeping its #1 position. If interest rates peak in the months ahead, it's going to remove the US dollar's main prop. This suggests the dollar will resume its long-term bear market decline. And if the dollar begins another leg down in the bear market, these trends could explode.

"This makes our top conservative stock pick a pair of exchange traded funds- **streetTRACKS Gold Trust** (GLD NYSE) and **iShares Comex Gold** (IAU ASE), which both track the price of gold. For more speculative positions, we suggest a package of gold shares including **Newmont Mining** (NEM NYSE), **Royal Gold** (RGLD NASDAQ) and **GoldCorp** (GG NYSE). All three of these stocks should also continue to do well in the year ahead as gold heads higher."

Trust and Treatment

*While excelling at very short-term trading, providing detailed advice to subscribers several times each day, **Mark Leibovit** also uncovers longer-term core positions. Here he looks at gold, one of his favorite long-term markets, as well as a medical speculation.*

"**streetTRACKS Gold Trust** (GLD NYSE) is an investment trust whose shares strive to reflect the performance of the price of gold bullion, less the trust's expenses. The trust holds gold, and is expected to issue baskets in exchange for deposits of gold, and to distribute gold in connection with redemptions of baskets.

"The gold held by the trust will only be sold on an as-needed basis to pay trust expenses, in the event the trust terminates and liquidates its assets, or as otherwise required by law or regulation. The trust is not managed like an active investment vehicle, and it's not registered as an investment company under the Investment Company Act of 1940.

"**Hythiam** (HYTM NASDAQ), a development stage management company, engages in the research, development, licensing, and commercialization of physiological treatment protocols for the treatment of alcoholism and other substance. The company offers HANDS Protocols for use

by healthcare providers to treat patients diagnosed with dependencies on alcohol, cocaine, methamphetamine, and other addictive stimulants, as well as combinations of these drugs.

"Its HANDS Protocols also provide a maintenance program that includes medications and incentives for patients to continue with their recovery process through individualized continuing care programs. The company also offers administrative services to assist physicians and facilities with staff education, clinical services, marketing and sales support, and outcomes tracking methodologies for data analysis. Our target for this more speculative idea is $10-$12."

A "Healthy" Defense

***Mike Murphy** has developed an industry leading expertise by focusing on high growth, high potential markets such as technology, biotech, and healthcare. With his expectations for economic weakness ahead, he looks towards the "more defensive" healthcare sector for top picks.*

"I think 2006 will be a poor year in the economy because the Fed has gone too far (again), compounded by an erosion in housing due to regulatory changes. My MegaShift stocks are selected to sidestep economic weakness, and the one sector that does that best is defensive healthcare. So I'll pick two stocks in the healthcare field- both potential doubles in 2006.

"**eResearch** (ERES NASDAQ), my more conservative pick, is the leading independent contractor for cardiac impact studies of drugs in clinical trials. Pharmaceutical and biotech companies of all sizes, worldwide, hire them to collect ECG data over the Internet, analyze it and prepare FDA-acceptable analyses and documents that can be "plugged in" to the drug developer's FDA applications. The Premarin and Vioxx disasters caused the FDA to require that almost every drug undergo cardiac safety testing for side effects, not just heart drugs.

"That change quadrupled ERES' available market overnight, and has now become a worldwide standard. Newly required cardiac safety studies are now holding up drugs that were completing Phase III trials, and ERES' orders exploded in the December quarter. The company has over $70 million in cash, no debt, throws off $9 million in cash per quarter, and should earn north of 50 cents a share in 2006, up about 75%. My target is $30.

"**Dendreon** (DNDN NASDAQ), my more speculative pick, is a development-stage biotech just completing filing for its first drug approval. Provenge (PROstate reVENGE) is a personalized vaccine for prostate cancer, made by taking the patient's own cancer cells, growing them in a lab, attaching a powerful antigen, and reinfusing the therapeutic vaccine into the tumor. Phase III trials showed it significantly increased survival, the gold standard for approval.

"The technology can be applied to numerous solid tumor cancers, and is an important early step in the trend to personalized medicine. The drug qualified for Fast Track review, and I expect approval in 2006, with revenues before the end of the year. That would get the stock to my $14 target by the end of 2006, if it isn't bought out by a big drug company at a higher price first."

Wireless Wonders for 2006

*By focusing exclusively on one investment sector, **Nikhil Hutheesing** has become the industry leading expert on the wireless world, continually offering an in-depth analysis of the technology, trends, and investment opportunities within this arena. Here are his favorites for 2006.*

"**Qualcomm** (QCOM NASDAQ), our more conservative play for 2006, has built a thriving business by licensing its intellectual property, such as CDMA technology, to equipment manufacturers as well as wireless service providers. But this year, the company promises to offer wireless carriers a system that will let you get television on your cell phone. This could be big.

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"To do this, Qualcomm is spending $800 million to build a nationwide mobile video and multimedia multicasting network. It's developing a chipset for the networks called the MBD1000 that will allow the network to seamlessly interface with CDMA2000 and WCDMA systems. Qualcomm's network will offer a TV service called MediaFLO based on its FLO (Forward Link Only) technology.

"I expect that 2006 will be a banner year for **iPASS** (IPAS NASDAQ), our speculative pick for the year ahead. iPass provides companies with the ability to let their employees connect to their corporate networks easily. The company also provides high-level security, making the service highly attractive. Recently, iPass has been struggling because its service is predominantly offered over narrowband networks- or dial-up service.

"All that is now changing. iPass has been actively working with wireless service providers to put together a wireless broadband network. That's what companies want and that's what employees want. Not only does wireless enable connectivity from anywhere, but because it's broadband, it allows employees to tap into corporate programs that require great bandwidth. The move to wireless should provide iPass with new renewed growth in the years ahead."

Solid as a Rock

*When it comes to investing in regional banking stocks, **Doug Hughes** is the advisor to bank on, as he focuses exclusively on this sector. Further refining his niche, he favors regional banks with takeover appeal, including Granite, his top 2006 pick.*

"**Bank of Granite** (GRAN NASDAQ) currently operates 21 banking offices in North Carolina and Hilton Head Island, South Carolina. These are some very strong markets and a franchise like this is valuable in today's world. This bank once was the premier name within the group and we think it is headed back towards that status. Bank of Granite now over $1.1 billion in assets, deposits approaching $900 million and loans up 8.7% last year to $753 million.

"The bank has increased their cash dividend for 52 years in a row and earnings in the latest quarter of $.32 a share were up 32.8% showing their expansion is working and the costs are now behind them. Asset quality also continues to improve as does the net interest margin. Allowance for bad loans is at 1.60%, very solid with non-performing loans at 0.67%. The efficiency ratio is down to under 49% and dropping. Their book value is now almost $11 a share and the bank continues to repurchase stock at these levels.

"With over 320 hard-working employees and a strong mortgage shop, maybe the Bank of Granite will find a buyer over the next year. Management is getting up there in age and they also own a lot of stock, so someday they will want to get paid. In fact, they also pay themselves very reasonable salaries for today's world. Management has also been buying a little stock lately, which I consider a good sign.

"If they continue to come in with strong earnings, look for a rebound in the stock to $20-$22 within 1-2 years and $28+ if a deal were to happen. In the meantime, enjoy the healthy cash dividend with a yield of 2.70%. If no deal happens, look for a 10%-13% annualized return for many years to come. They have 13 million shares outstanding and this one trades plenty but has a big spread sometimes, so please by it slowly under $18.75 and all you can under $17.75. Downside should be limited to around $17 a share even in a hard sell-off."

Out-of-Favor Favorites

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*With 30+ years of investment experience, few advisors are as respected by investors and professional peers as **John Dessauer**. Noted for his independent thinking, his favorite stocks-including his top picks for 2006-are often ones that are misunderstood by Wall Street.*

"**Cendant** (CD NYSE), my conservative pick for 2006, will become four stocks before 2006 is over. The company will spin out its four divisions to us (in a tax-free transaction) this year, starting with 'Real Estate' services this spring. The 'Housing' stock hasn't been spun out yet, but Wall Street is already knocking this part of Cendant because of the 'housing bubble' fantasy. They know there won't be a refinancing boom, interest rates won't be falling fast, and house price growth will slow. What they don't see is that those trends are healthy for a normal housing market.

"Then, this summer, investors in Cendant will receive shares in its 'Hospitality' business, including the vacation timeshare business. It may take a couple of quarters before the travel business grows, but shares in this unit should do well too. The hotel business is booming and the timeshare segment is growing fast. I expect the shares in this unit to do very well post-spinoff. We will receive shares in 'Travel Distribution' in October. The final Cendant business will be Rental Cars.

"CD was bashed last month after management announced a problem with the Travel Distribution business. Part of the problem is management, and one high-level head has rolled. Part of the problem is technical and the Web site traffic has been too much for the infrastructure to handle. Management is addressing these issues, but online travel is a growth business. Gloomy analysts say CD is worth $20 to $22, for a 20% gain this year. But I think the package, once spun out, could be worth much more than $20, perhaps even $30 a share.

"My favorite speculation for the year ahead is **Rite Aid** (RAD NYSE), the third largest drugstore chain in the country. This stock is a turnaround situation. Following an accounting scandal that occurred several years ago, the company is now under new management. Meanwhile, the company showed progress in its third fiscal quarter operations, although I am one of the few analysts that see things that way.

"Most analysts are still skeptical and worry that a real turnaround is far off. Goldman Sachs apparently sees the stock as a trading vehicle, to buy around $3.50 and sell above $4.00. I believe many others see the stock the same way. However, if I am right and the basics are in place for a real turn for the better, this should be the year when that value becomes clear and a low trading range gives way to a long upward move, to over $5 this year and more later."

360 for '06

*"We're not short-term investors; we operate on a three-to-five-year timeframe," emphasizes **Mark Mowrey**, whose* **TechValue Report** *is the latest addition to the top-performing* **Prudent Speculator** *family. "Still," he says, "we have our favorites." Here's the one that tops his list.*

"Topping our list at the beginning of this year is software powerhouse **Microsoft** (MSFT NASDAQ). The current high-teen year-and-a-half out earnings multiple doesn't reflect what we believe remains ample growth prospects for a company that continues to lead the great majority of tech companies in flexibility, innovation, and earnings growth. And this year we think will prove a significant milestone in the company's march to broaden its influence beyond the PC with products that look much less like work and much more like fun.

"Serving as the core of this effort will be Microsoft's next-generation desktop operating system (OS), called Vista, which the company previewed in Las Vegas in early January, where it demonstrated many of the features-not necessarily new, but far more refined-available in the release, scheduled to hit the shelves later this year. For example, the OS greatly enhances the ease with which one sets up home networks, be they wired or wireless. That ease of setup and

operation will enable far more users to take advantage of what are perhaps the OS' most attractive features- their handling of home media.

"Audio and video are made easily accessible to a host of non-PC products, further increasing broad access to media libraries throughout the home. One such device is the newest video game console offering from Microsoft, the Xbox 360, which was easily the most sought after device this past holiday season. Supplies were far shorter than potential buyers would have liked, but another contract manufacturer has been added to the lineup, though, and Microsoft now expects to sell between 4.5 million and 5.5 million 360s by June of this year.

"Crammed with incredible 'game changing' (pun intended) technology and features, the 360 promises to solidify Microsoft's platform extension from the den to the living room. Not only offering the best gaming experience out there, the 360 also serves as a highly competent media hub. Meantime, the games are great, while the company's best-of-breed online gaming service, Xbox Live, greatly builds upon the success of version 1.0 and remains a fine example of how Microsoft can exceed competitive offerings by great leaps.

"An important thing for any investor to remember, the electronic device marketplace remains one of design and software, with key differentiators being how the user interacts with the device via the user interface. King-of-software Microsoft has shown with its latest products that it certainly understands these facts and has been hard at work trying to adhere to their confines.

"As importantly, we would even argue that Microsoft's other notable recent initiatives-including the shift to make available some of the power of the Office suite on the Internet via Windows Live and its choice to collaborate with Yahoo in instant messaging- suggest the company is now more willing to learn from others, such as Google, even as it innovates from the inside. That subtle shift, we believe, means Microsoft will likely continue to grow in other not-so-obvious ways.

"With much of the momentum yet to be generated from its new releases, we find most arrows pointing up for Microsoft as we head into the new year. Microsoft retains ample cash to continue to fund ongoing growth, and the 1.3% yield on the stock and a recently hastened share buyback plan pay us to wait for other investors to see the light. At about 18 times fiscal 2007 (ending June 2007) earnings estimates, according to Reuters Estimates, we find the stock an attractive addition to any highly diversified portfolio needing some tech influence. Our current target price is $43."

Tech Time

***Joe Battipaglia**, saw his top pick last year-Western Digital-rise 84% in 2005; remaining strong, the stock is now up 115%. He still sees information technology and equipment as a primary growth driver in 2006 and chooses two new tech plays as his current favorites.*

"While challenges exist on the horizon so too do opportunities for upside surprises. At present, we believe that the positives outweigh the negatives for the US economy and prospects can improve quickly in ’06- particularly if we get some relief early in the year on the question of energy prices and if the Fed stops raising interest rates. Corporate spending on information technology and equipment has grown at double-digit growth rates for the past two years as the embedded capital base, including technology, ages. For investors who correctly anticipate the coming changes, there are ample opportunities for well-allocated and diversified portfolios.

"Our top speculative pick for 2006 is **PALM, Inc.** (PALM NASDAQ). This maker of hand held computing devices has transitioned its product line to compete directly with RIMM's Blackberry. Teaming up with Microsoft and initially offered on Verizon's network, we believe PALM will achieve widening margins on higher volumes in '06 and '07. The stock currently trades at approximately 1 times revenues and 8 times free cash flow making it an attractive speculative pick. We note that we own this stock in our Washington Crossing managed accounts and have a $40 price target.

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"Our more conservative favorite for the year ahead is **Microsoft Corp.** (MSFT NASDAQ). Following the successful X-Box introduction comes Microsoft's real bread winner: new operating system software. Vista, the brand name for the new software, should be a multi-year adoption cycle for both corporate and personal use. Both revenue growth and margins should see improvements as Microsoft puts on a big marketing push. Microsoft's huge cash hoard can easily accommodate such marketing expenses along with further increases to the dividend. The stock currently trades at a market multiple and is set, in my opinion, to have a breakout year in 2006. We also own this stock in our Washington Crossing managed accounts and have a $32 price target."

Stock "Watching"

***Jocelynn Drake**, part of the **Schaeffer's Investment Research** team, utilizes the firm's tried-and-true approach to combining the best features of technical, fundamental, and sentiment analysis. One of her top picks watches your portfolio; the other watches your time.*

"**Fossil** (FOSL NASDAQ), which designs and distributes fashion watches, is my speculative pick for 2006. After shedding more than 53% from its October 2004 high to its October 2005 low, the trendy retailer has begun to stage what appears to be the start of an impressive uptrend. The pullback was stopped by long-term support at its ascending 80-month moving average. This trendline successfully halted pullbacks in the stock in late 2000 and 2001. A rebound from this moving average has allowed FOSL to reclaim support at its ten-month trendline as well.

"Despite growing technical strength, investors remain determined to call a top to the stock's rally. During the past several months, short interest has swelled as traders added to their bearish bets. In fact, the number of FOSL shares sold short surged 33% in December to a fresh multi-year high of 6.3 million. This accumulation of bearish bets accounts for more than 12% of the security's float and results in a short-interest ratio of 13.4 days to cover. An unwinding of these pessimistic positions could add significant fuel to the stock's uptrend.

"FOSL hasn't gotten any love from Wall Street either. Six of the seven analysts following the retailer rate it a 'hold.' Not only does this configuration leave room for potential upgrades, but coverage is also light when compared to some of its retail brethren, which have 16 to 21 analyst ratings. Any positive initiations by the various brokerage firms as they discover this hidden gem could boost FOSL higher during the next 12 months.

"One overlooked and under-loved equity is **Charles Schwab** (SCHW NASDAQ), my conservative pick for 2006. The broker/dealer sector has enjoyed a stellar run during the past couple of years. The PHLX Broker/Dealer Index has shot 200% higher from its March 2003 low, and yet pessimism toward the group abounds. Our put/call open interest ratio (which measures sentiment among options players) for the group continues to hover near annual highs as investors load up on bearish put positions.

"Short interest for the broker/dealer sector is also resting near an annual high, representing ample sideline money that could jump in to fuel additional gains. And Charles Schwab, from a fundamental perspective, continues to impress, surpassing the consensus estimate in four of the past five quarters by an average of 9%. In 2005, the stock rallied nearly 23%, far outpacing the S&P 500's return of 3.2%.

"After consolidating along support in the 8.50 area from May 2004 through October 2004, the stock rebounded and reclaimed the support of its ten-week and 20-week moving averages, which have guided the equity higher since May 2005. SCHW's brethren have shrugged off the security's growing technical and fundamental strength, as 80% of the 15 analysts following the company rate it a 'hold' or worse. Any upgrades from this dour group could also help to boost the stock higher."

Ring Up, Dig Down

***Ivan Martchev** is a member of the all-star KCI editorial team. For his favorite conservative stock for 2006, he rings up telecom player, Verizon. For his speculative selection, he digs down to South Africa, for a high risk play on mining firm, DRD Gold.*

"My conservative pick for 2006 is **Verizon** (VZ NYSE). The telecom company recently acquired MCI and has a strategy that goes far beyond local phone service, which is what comes to mind when you mention Verizon to individual investors. There are many other aspects to Verizon's business including its wireless and optical strategy. The stock yields 5% and the company has A-rated balance sheet. The shares trade
at 12 times earnings and the company shows positive revenue growth.

"This is a boring company and stock, but there is an excellent chance that boring and stable stocks are back in favor in 2006 with a flat yield curve that already suggests that there will be a decelerating economy in 2006. Verizon has been a 'buy at 30, sell at 40' story for a long time and even if it turns out to be the same in 2006, you still have a good chance here. Plus I like the fact that the average investor has very negative sentiment towards the telecom sector.

"My speculative pick-indeed, I would call it super aggressive- is **DRD Gold** (DROOY NASDAQ), previously known as Durban Rooodeport Deep, is a South African gold miner. It's become buy-the-laggards time in the precious metals sector. And when it comes to precious minerals stocks, the biggest laggards are the South African producers. The reason is simple: While gold bullion trades in US dollars, South African miners pay their costs in South African Rand.

"With the rand appreciating so much in the 2002-04 period, South African gold stocks faced a declining price of gold in rand terms and rising production costs, while gold rallied in US dollars. That bizarre situation is now over. South African miners with strong balance sheets are interesting buys, while companies in notably weaker financial condition, such as DRD Gold, are bound to come back. But DRD should only be purchased as a speculative play and not a core holding."

Shelter from the Storm

*"Today's markets are more uncertain than ever, with storm clouds looking increasingly nasty on the horizon," says **Keith Fitz-Gerald**. However, he adds, "That doesn't mean that sticking your head under the 'proverbial' mattress." Here are his two top buys.*

"I have been concerned with interest rates, trade deficits, energy, and the 'China Effect'. Nevertheless, my two favorite picks for 2006 offer significant appreciation potential and high current income- something most investors don't ordinarily think of in the same sentence. What's more, each is the dominant player in their respective industry and both are growing in ways that continue to build long-term profitability.

"My conservative pick is **Citigroup** (C NYSE). As I have been expecting, earnings are going to come under pressure from changes in the bankruptcy laws and rising rates. So even though the Street recently made hay over a two cent miss related to these factors, think about it logically. Citi reported earnings of $24.6 billion for the year and 4th quarter earnings of $7 billion- both of which are up a staggering 44% and 30% versus a year ago. In the scheme of things, two cents isn't a big deal particularly when you consider what a spectacular farce the whole managed expectations thing is anyway. And that's why I remain excited about this stock.

"Among other things, it is clear that Citi smells the same money in China that we do. To that end, another one of my predictions came true when it was recently disclosed that Citi is trying to buy

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Guandong Bank for $3 billion. This move, should it go through, will put them squarely on the map in the heart of the Chinese banking industry. All the signs show that Citi is going to play a major role in re-shaping China's fledgling banking industry (and probably the entire Chinese financial structure) before the dust settles.

"My more speculative pick is **Deutsche Telekom** (DT NYSE). The company operates in 50 countries on six continents, and is a truly global player in many respects. This gives it the size, scope and scale I drool over because all three of these factors scream certainty. In other words, we are not talking a risky flyer here. DT is a proven company, poised for some significant growth and returns in the next few years. This increases our odds of success dramatically! Revenues are a whopping 29.1 billion euros ($34.9 billion), a 3% increase year-over-year. That number may not flip your switch, but that's not the whole story.

"Get this: DT's annualized EPS growth rate is 270.08%. Combined with the fact that DT is trading near the bottom of its range says to me that things look ready to light up. I really like the fact that DT continues to demonstrate leadership in the telecomm sector. Not only is DT's CEO continuing to restructure the company and staff, but he's making significant strides in businesses that build upon their dominant telecomm strengths- in particular the wireless spectrum. In addition, DT is offering wireless broadband access on Deutsche Bahn trains. It's something I like to see because it means that DT is not only working with retail consumers, but taking an active role in large government contracts."

Gilder's Power Play

George Gilder *is one expert who deserves the description of "visionary." He says, "Technology spearheads the innovations that create wealth. For big winners, you have to go to tech." Along with analyst* ***Charlie Burger*** *he offers a "power" pick for the new year.*

"Who today has an analog cell phone? Just a few years ago they were all analog. Now they're all digital with incredibly expanded functionality. Just as Moore's law advances revolutionized the cell phone industry, so will it trigger a bolt from analog to digital in board-level power management. As semiconductor geometries shrink, on-chip currents rise and voltages fall, making power regulation on circuit boards more complex and increasingly challenging for traditional solutions. At the same time, Moore's law is solving the power problem it is creating as digital solutions rapidly overwhelm analog in functionality, flexibility, and size.

"Analog architectures typically require one hard wire per function. Thus 30 power-related functions often require 30 wires, a lot of interface, and a lot of complicated circuitry. Every function adds cost and complexity. Using digital technology, added functions are often free, and engineers can design power modules in 10% of the time with 90% fewer components compared to analog. Digital can save 50% on board real estate. Changes can be made on the fly with a graphic user interface, avoiding lengthy and costly reengineering and re-layout.

"Analog will continue to be preferred for low-level boards and simple consumer devices, battery chargers, and many single-voltage applications. But for medium and complex circuit boards, digital is fast becoming attractive and even necessary. **Power-One** (PWER NASDAQ) understood this trend early on and remains the only company with a complete digital-power solution. Meanwhile the competition, amid brash dismissals of the technology, is engaged in a panicky drive to duplicate it.

"Restructuring completed, Power-One turned profitable in September for the first time since March 2001. With the traditional product lines picking up steam ahead of the digital avalanche, with no long-term debt, and net cash of $80 million, the current market cap of $517 million (at $6 per share) or 1.9 times annualized revenue looks conservative, giving the stock downside support. Even assuming no new sales, a return the historic ratio of 2.75 times revenue would push the stock to $8.60. If Power-One outperforms all other companies in digital power and grows

to dominate a market expected to reach billions in sales, the stock could become a five- or ten-bagger from current levels by the end of the decade."

Top Pick Picks Pixar

Jessica Chiaverini *is a contributing editor for* **The Prudent Speculator***, a newsletter focused on growth and value that has consistently been among the very best performers for more than two decades. Her favorite pick is Disney, which has just picked Pixar.*

"With its stated strategy 'to achieve growth through great creative content, global expansion, and the application of new technology,' **Walt Disney** (DIS NYSE) is definitely a top pick for 2006. And with the just-announced $7.4 billion deal to acquire Pixar Animation Studios, the future for Disney looks brighter than ever. In its fiscal fourth quarter report, investors had to drill down to really find the negatives. Media Network's revenue, including both broadcast (ABC TV & ABC Radio) and cable (ESPN & Disney Channel), was excellent, rising 12% year over year.

"The Parks and Resorts division were likewise up 16%. The one real weakness was the Studio Entertainment division, which comprises movie ticket and DVD sales. The market seems to give more weight to this division, out of proportion to the impact it has on the overall bottom line, because of the idea that Disney's movie franchises drive sales in all other parts of the company. All told, Studio Entertainment revenues declined 20% for the quarter and were down 13% for the year.

"But the headline numbers mask some important considerations. First, last year had some very difficult to beat titles including *Pirates of the Caribbean*, *The Lion King* Platinum Release, and the mega-hit *Finding Nemo*. Second, it was really no surprise that the last six to nine months of weak box office results translated directly into weak DVD sales. In our opinion, this had more to do with the winding down of the Miramax controversy than to the long-term health of Disney's movie business.

"And while we were a little disappointed that Disney did not expect the DVD sales trend to turn around until the second half of next year, Disney still has a lot to be excited about. Pixar is an excellent strategic fit, which should greatly bolster the animation unit. Similarly, opportunities abound to leverage the Pixar film characters across theme park rides, TV, and merchandising. But even before the Pixar buyout announcement, momentum at Disney had started to build. This summer brings both *Pirates of the Caribbean 2* and the next Pixar movie *Cars* to the big screen.

"Video games and a wireless service are also new focuses as the company has been one of the first to embrace the digital distribution of content, evidenced by the deal with Apple to distribute episodes of shows like *Lost* and *Desperate Housewives*. Finally, Disney, which never releases park attendance figures, noted that the new Hong Kong theme park has been 'very, very strong.' The stock is also attractive from a valuation standpoint, trading at 19.9 times earnings and 17.4 times next year's earnings, 1.6 times revenue, and 1.9 times book value. We remain buyers of DIS up to $25.48 with our liquidity and fundamental goal prices of $51 and $41, respectively."

The "Wright" Stuff

In his stock selection process, ***Kelley Wright*** *focuses exclusively on "quality blue chips," a term that could equally describe both his top-tier research and top-performing dividend-based investment strategy. Here, he assesses Pfizer and AT&T as his top picks for 2006.*

"Our investment strategy is based on historical parameters of dividend yield. When all other factors, which rate analytical consideration have been digested, the underlying value of dividends, which determines yield, will in the long run also determine price. The key to value, therefore, lies in yield as reflected by the dividend trend.

"Individual stock prices fluctuate between repetitive extremes of high dividend yield and low dividend yield. These recurring extremes of yield establish Undervalue and Overvalue price levels. When a dividend is raised, the Undervalue and Overvalue price levels are raised automatically so they will continue to reflect the historically established yield extremes. Each stock has its own distinctive high and low yield characteristics and must be evaluated individually.

"My instincts based on my experience lead me to believe that 2006 will be the revenge of big pharmaceutical companies. As such, my top conservative pick for the coming year is **Pfizer** (PFE NYSE). The stock took forever and a day to decline to a level where the dividend yield rose to the historic level of undervalue that we look for. With a fresh win in the courts protecting their patent on Lipitor, PFE is positioned to reap the benefits of a pipeline that is poised to deliver. The 4% plus yield is a bonus.

"While I also like gold and oil for 2006, I'm going to go to big telecom for my speculative pick- **AT&T** (T NYSE). Now that AT&T and SBC have joined, additional money and time will need to be devoted to streamlining operations and effectively reorganizing assets. The new AT&T now seems poised to emerge as the clear winner in a decade long battle with its many competitors.

"Granted, calling AT&T a speculative stock probably sounds like I've spent too much time in the southern California sun, but-based on our dividend strategy- the stock never did finish its declining trend to a dividend yield of 7%. However, in the current interest rate environment, a return to a 7% yield on the stock is highly unlikely. As a result, a 5.5% and a world of upside potential will have to suffice."

ABB: After Asbestos

With "green" implying monetary success, ***Alexander Green*** *is aptly named. He has a highly successful record of isolat ing long-term opportunities that are under-recognized by Wall Street. Here, he picks an international firm recovering from asbestos-related troubles.*

"Many of our favorite stocks are at the top end of their range. But we view this as a confirmation that the business prospects for these companies are still improving. Which brings me to **ABB, Ltd.** (ABB NYSE), my top pick for 2006. Based in Switzerland, ABB is the one of the world's largest electrical engineering companies. In particular, it is a leading supplier of power networks.

"The company is #1 or #2 in virtually every business line in which it competes. And the demand for power equipment-especially in emerging markets like China and India- is growing at a rapid pace. In the US, the average age of power equipment is 40 years. That means we're about to enter a major replacement cycle. And the demand for power equipment in emerging markets like China and India is growing at a white-hot pace, as well.

"However, we moved ABB to a hold in July as the price fell back on news that a US appeals court rejected the company's $1.2 billion settlement plan for asbestos litigants. I promised to move it back to our buy list when the earnings prospects and the price action improved. And they have. In the third quarter, revenue climbed 13%, orders rose 15%, and earnings before interest and taxes climbed 81%. Now, the company appears close to a final resolution of lawsuits concerning its asbestos-insulated boilers, as well.

"The stock is up over 50% for us in the past year and a half, while the S&P 500 is up 9% over the same period. And now it's back on our buy list. We'd also note that the stock is Swiss-franc denominated, providing a valuable dollar hedge. Overall, the company operates in a profitable niche with high barriers to entry. It has good earnings momentum and limited competition. Standard & Poor's says it may soon raise the company's rating to investment grade. Oh, and one other thing…it just recently hit a 52-week high."

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More Than Avian Flu

*Given its recent coverage in the media, many may be familiar with Biocryst as an avian flu play. While biotech expert **John McCamant** recognizes that potential, he feels investors are underestimating the firm's role in other promising areas. Here's his review.*

"**BioCryst** (BCRX NASDAQ) enjoyed a tremendous 2005. We believe, however, that this was just the beginning of what will be an extended, longer-term move upward. As a result, the company and their stock are poised for substantial growth in 2006. Most of the attention toward BioCryst has been focused on peramivir-the company's potential treatment to combat avian flu.

"To be certain, we believe a number of factors suggest that peramivir is uniquely positioned to be the first choice when it comes to the US government's Project Bioshield stockpiling drugs (not to mention other governments) to fight avian flu. This could provide significant short-term appreciation for BioCryst's stock price.

"That said, we believe that investors are paying very little attention to the fact that, in addition to the peramivir program, BioCryst has three other legitimate, potentially lucrative development programs/compounds. These include their lead drug candidate, Fodosine, for the treatment of both T-cell and B-cell malignancies, BCX-4208, for the treatment of autoimmune/inflammatory disorders, as well as their exciting program devoted to the treatment of the hepatitis C virus.

"BioCryst recently delivered an outstanding partnership with Pfizer for the development of BCX-4208, providing the company not only valuable access to cash, but also excellent validation of the program. In addition, we expect that the company will get the go ahead shortly from the FDA to start pivotal-stage testing of Fodosine, and additional partnerships for the drug candidate, the HCV program, or both, are likely not too far off.

"Investors should keep in mind that even after the move the stock made last year, the company's market cap is still barely over $500 million. In this regard, we would make the argument that the company continues to remain significantly undervalued even *without* the peramivir program factored in. In our opinion, BCRX is a buy under $20 with an 18-24 month target of $50."

Vahan's View on RF

Vahan Janjigian *approaches investing with the eye of a sophisticated scholar, applying capital market theory, portfolio management, fundamental skills, and quantitative analysis. For his 2006 favorite, he offers a speculative tech play on radio frequency communications.*

"**Sirenza Microdevices** (SMDI NASDAQ), a small-cap company currently generating about $60 million per year in revenues, designs radio frequency (RF) components used in communications devices in both the commercial and military markets. These products help improve reception and transmission of voice and data signals in both wireless and wireline applications.

"Slightly more than half its revenues and operating profits are produced by the Signal Source segment, which makes multi-component modules used to generate and control RF signals. The Amplifier segment makes various kinds of amplifier products primarily composed of integrated circuits made from semiconductor wafers. More than three-fourths of the company's sales come from abroad, and 17% of net revenues come from Solectron, a contract manufacturer for Motorola. Other key customers include Ericcson and Nokia.

"Although revenues have been flattening, the company experienced strong growth in recent years due to three key acquisitions. The focus is now shifting to integrating these acquisitions and realizing their synergistic effects. However, since the company recently boosted revenue projections for the most recently completed quarter, we think SMDI could see sales close to $75

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million. Furthermore, 2006 earnings per share should double from 2005 levels. Assuming the year progresses as expected, SMDI could rise to the high single-digits by year end."

Editor's Note: We would emphasize to readers that when Vahan submitted this selection, the stock was trading in the low 5s. The stock has since jumped sharply in price.

Pape's Pair

In line with his role as a leading authority on Canada, both top picks from ***Gordon Pape*** *have a "Canadian twist." His speculative favorite, Goldcorp, is based in British Columbia, while his conservative play, Kinder Morgan, has "acquired" a role in the Alberta tar sands.*

"My aggressive pick for 2006 is **Goldcorp** (GG NYSE). Let's be clear from the start: the shares are not cheap. But we're not shopping in the bargain basement here. And there's good reason for investor interest. Goldcorp is the world's lowest-cost gold producer. Final 2005 numbers should show total production of more than 1.1 million ounces. To add to the attraction, in early December Goldcorp reported that it was sitting on $400 million in cash. It has no debt and has not hedged any forward sales, so it benefits fully from every upward move in the price of gold.

"While, that's reason enough to like the stock, this is not a company that's resting on its laurels. In late November, it announced it was acquiring 10% of Wolfden Resources, an exploration company in northern Ontario. In December, it announced a deal to buy Quebec-based Virginia Gold, which controls the Eleonore property in Northern Quebec, which is regarded as one of the most promising new discoveries in North America. Goldcorp is also paying about $1.5 billion to acquire several properties in such areas as Chile and the Dominican Republic.

"Goldcorp said in a statement that acquisitions will increase its 2006 production by about 50% to more than two million ounces and will add about 83% to reserves, taking them to about 23 million ounces. Average production expenses will also rise but Goldcorp says it will maintain its position as the lowest cost producer at about $150 an ounce. Very aggressive investors may buy at the current price. More cautious readers should watch for a pull-back and look to enter around $20."

"Our conservative pick for the year ahead is **Kinder Morgan** (KMI NYSE), a major player in the US pipeline sector, operating more than 35,000 miles of gas and products pipelines. It is also involved in natural gas retail distribution and, to a limited extent, in natural gas fired electrical generation. Its acquisition of Canada's Terasen (formerly British Columbia Gas) will place KMI in a position to be able to supply output from the Alberta oil sands to the US market, which is expected to dramatically increase its reliance on Canadian oil in the company years.

"In announcing the Terasen acquisition, KMI's chairman and CEO Richard Kinder indicated the company is prepared to invest heavily in expanding this capacity going forward. There is another potential bonus for shareholders in KMI's entry into Canada. The company is the leading supplier of carbon dioxide for use in oil recovery in the US. The gas is gaining favor as a way to increase yields from the Alberta oil sands and KMI will now be well positioned to grab a share of that business.

"This is a company with long-term growth potential. For fiscal 2006, earnings are expected to come in at $5 per share, which would represent an 18% increase. Analysts generally like the stock although they aren't expecting any big move in the near future, with a median target price of $100 according to Thomson/First Call. However, while we're waiting we are collecting a decent dividend of $3 a share for a yield of 3.2% based on the original recommended price and we could see that increase in 2006. Buy."

A "Focus" on China...

Jim Oberweis** has just expanded his role from advisor to manager, with the recent launch of his new fund, the* **Oberweis Chinese Opportunities. Here, along with **Jeff Papp**, he looks at one favorite stock which, in line with his new fund, focuses on an opportunity in China.*

"**Focus Media Holdings** (FMCN NASDAQ), based in Shanghai, is a speculative stock and our top pick for 2006. The company derives its revenues from operating a network of flat panel televisions throughout the highest foot traffic areas in China. It runs continuous advertisements on TV's in office buildings and retail stores. While the company's business may seem difficult to comprehend for US investors, the business is very profitable and common practice throughout China.

"Focus Media was an IPO at $17 last July. While the stock has risen 100% since then, we feel optimistic that continued growth will lead the stock even higher. So what will be the growth catalysts to propel FMCN even higher? First, the company has a commanding market share position within the commercial segment of its business. Currently, it has over 70% of the market for TVs located in office buildings in the major top tiered Chinese cities. While growth may seem limited due to the already high penetration rate in top tiered cities, the company has been aggressively expanding into China's second and third tier cities.

"In addition, the company has been targeting other areas for television advertisements including grocery stores, hypermarkets, and other retail venues. Finally, as Chinese consumption growth increases, with a corresponding increase in wage growth, companies are likely to beef up spending on advertising. This should play right into the hands of FMCN and could allow for potential price wars between advertisers battling for space on FMCN's TV's.

"FMCN has executed well so far in taking advantage of its favorable market position, as evidenced by its latest reported quarterly financial numbers. In FMCN's latest reported third quarter, FMCN's revenues leaped 146% from the corresponding year ago period. Equally impressive was the company's bottom line, which saw the company produce earnings per diluted American depository share of $.19, which compares very favorably to a loss in the year ago period.

"But what could potentially go wrong on our thesis for FMCN? First, government regulation risk is always a major concern when dealing with companies outside the US. For example, the Chinese Government could impose a restriction on the number of advertising displays to alleviate consumers from being bombarded with ads. This potential action could restrict future growth opportunities for FMCN, given its largely penetrated top tiered city base.

"Secondly, competition is always a concern, even despite FMCN having such a large market share advantage. FMCN's major competitor commands much of the remaining market share in the commercial business and could provide resistance to FMCN's future growth. While we remain very positive on the growth prospects for FMCN for the next year we remain cognizant of the risks that are involved that could impact FMCN's growth and stock performance. However, taking into account the risk/reward equation, we feel that the potential upside for FMCN is much greater than the downside risk and look forward to watching this relatively unknown small cap company grow. We consider the stock a strong buy."

...a Chinese Duo

*I am very glad to take this opportunity to welcome **Jim Trippon** to our coverage at the Money Show Digest. Here, the editor of* **China Stock Digest** *offers his two favorite selections for 2006-a conservative play on energy and a speculative play on technology.*

"When it comes to oil and gas, China is taking its place as the Texas of the 21st century. Bigger is better, and **China Petroleum & Chemical** (SNP NYSE) fits the bill impressively. Best known by its abbreviated name, Sinopec, the stock is a conservative long-term buy and hold. Sinopec is

China's second-largest producer of oil and natural gas. It has proven reserves of 3.3 billion barrels of oil and 2.9 trillion cu. ft. of gas, and it owns more than 29,400 gas stations.

"Sinopec stands out as a world-class player. In November 2005, it won best corporate governance and most-respected award, and ranked number one among Chinese listed companies. The ranking is made by *World Executive Weekly*, *World Finance Lab* and *Wall Street Wire*. Its growth is breathtaking. Sales grew by 46% in 2004 and profits rose 66%. Total sales were almost $75 billion. Despite its high sales volume, its market cap remains in a conservative range below $50 billion. The p/e ratio varies between 7.3 and 10.3. We appreciate such reasonable values in a company that continues to explore and increase its reserves annually.

"Our speculative pick, **Lenovo Group Ltd.** (LNVGY Other OTC), is based in Hong Kong. It was one of the great Chinese-American business stories of last year, and it promises the same for the year ahead. It makes and sells desktop and notebook computers, mobile handsets, servers and peripherals. Lenovo sent shock waves through the PC industry when it acquired IBM's personal computing division. The company has an additional product line, which includes mobile handsets, servers, peripherals, and digital entertainment products for the Chinese market.

"In November, Lenovo announced second-quarter financial results for the 2005-2006 fiscal year had risen 404% with revenues of $3.67 billion. EBITDA rose 270% to $122 million, and profit attributable to shareholders was up 22%. We anticipate Lenovo's future lies in its ability to serve North American markets with the advantages of Chinese labor rates and IBM's mature sales and marketing channels. Lenovo is a speculative buy."

...and a US-China Pair

*Also new to our coverage is **Robert Hsu**, whose has just joined the Phillips Publishing family with* **China Profits***. Here, he looks at National Semi, a US-company poised to benefit from China's growth, and Tom Online, a Chinese Internet firm.*

"Our conservative pick is **National Semiconductor** (NSM NYSE), an American company that's sure to benefit from the American-style consumerism that's sweeping through China and the low-cost manufacturing there-not to mention consumer spending right here in the US. All electronic gadgets require semiconductors to operate, so semiconductor manufacturing is indeed booming in China, and NSM leads the way in the analog chip industry. It derives a whopping 45% of its revenue from the Greater China region-more than any other company in the S&P 100.

"China also happens to be the world's largest market for wireless handsets, with over 400 million cell phones currently in circulation-and still growing 20% a year! National Semi is the largest supplier of power control units to cell phone companies selling in China, and strong handset demand there has been a key factor in sales growth. The combination of National Semi's heavy exposure to China's growing electronic manufacturing base and emerging consumer electronic trends make the company an ideal China play. I'm eyeing gains of 30% or more.

"For a more speculative pick, **Tom Online** (TOMO NASDAQ) is the best China Internet stock to own. In a nation where cell phones outnumber PCs by 4-to-1, the way most Chinese access the Internet is through a handset, not a computer. Last year, Chinese consumers spent $4.4 billion on these value-added services-using their cell phones to go online, send and receive short messages, download images, music and games, etc.-and the market is growing at over 30% each year. Tom Online is the leading provider of these services. It owns the biggest online ring tone portfolio in Asia.

"Tom Online also offers dozens of other services, such as daily astrology. With millions of potential users, the money adds up quickly. Given that there are 400 million cell phones in China, the company's cash register 'rings' thousands of times per minute. As China's wireless networks upgrade to the next generation (2.5G and 3G), newer and more sophisticated value-added

services will become possible and open up more growth opportunities for Tom Online. TOMO is a great pure play on China's wireless communication industry and the role of the Internet, and I'm looking for a double in the next year."

A Financial "VIPER"

*One of the reasons I've always been so fond of **Nancy Zambell** and her research is that she goes beyond "advising" in order to educate investors and provide the "tools" needed for success. In this light, her top pick for 2006 also explains an important investment vehicle.*

"For quite some time, I have been 'turned off' by mutual funds, as more than 80% of them underperform the S&P 500 Index. And their management expenses, loads, and marketing fees have expanded so much that deducting those from profits often results in extremely lackluster returns. Yet, I love their ability to help investors easily diversify their portfolios, and up until a few years ago, mutual funds were an investor's easiest route to diversification and often the only choice for 401Ks.

"That situation drastically changed with the advent of exchange traded funds (ETFs). The ETF market currently stands at a whopping $265 billion, with more than 200 diverse funds. ETFs hold tremendous advantages. Despite commissions, expenses are significantly less than most mutual funds. They can be traded all day long, instead of just once daily for mutual funds. In addition, investment turnover is not as frequent as in mutual funds, lending them to lower capital gain distributions. And there is no minimum investment.

"I am a fairly conservative investor with my subscribers' money, so I've been patiently watching the ETF market until I felt it was liquid enough and had overcome any initial hurdles that might have prevented investors from fully participating to their maximum advantage. Those days are now past us. And I feel that right now is the time to begin building your portfolio of ETFs. It is very easy--and probably wise--to invest in the broader market ETFs, such as **S&P 500 SPDRs** (SPY ASE), **Dow Jones 30 Diamonds** (DIA ASE), or the **NASDAQ 100 Trust** (QQQQ NASDAQ).

"But I want to start your ETF portfolio with a sector that looks particularly undervalued. I have long been a believer and successful investor in financial companies. My subscribers have taken home some fabulous profits over the years, in small regional banks, mezzanine financing companies, and real estate investment trusts. Now I have found a vehicle that will give investors a wide diversity of financial investments, using an ETF-- **Vanguard Financial's VIPERs** (VFH ASE).

"VFH's aim is to parallel the returns of the MSCI US Investable Market Financials--a benchmark index that measures the performance of a basket of financial stocks. This sector fund is comprised of small-, medium-, and large-cap financials, including investments in investment banking and brokerage, corporate lending, real estate, asset management, insurance, consumer finance, mortgage finance, and specialized finance. Its expense ratio is just .26%. The ETF has done well this Fall, and it has a nice dividend yield of 2.62%. Buy VHF up to $60."

A "Dynamic" Play

*It should come as no surprise that **Doug Fabian** -a long-standing expert on mutual funds-has also become one of the industry leading experts on ETFs, and-as seen in his top pick for 2006-an even newer vehicle developing in the ETF market.*

"My pick for 2006 is neither individual stock nor traditional mutual fund. In fact, it's not even a traditional exchange traded fund. It's the **PowerShares Dynamic Pharmaceuticals** (PJP ASE). PowerShares combine the best features of ETFs-low expense ratios, ease of trade, and transparency of holdings-with the active management and research associated with traditional mutual funds.

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"PJP tries to capture the performance of Dynamic Pharmaceutical Intellidex, a custom index designed to identify the best stocks within the pharmaceutical industry. PowerShares achieves that by employing its own proprietary stock selection methodology. This contrasts with traditional ETFs, which are simply constructed to mirror an existing sector index. Although PJP is very young (introduced to the market midway through 2005), its holdings read like a who's who of the drug industry.

"What you get when you buy PJP is the best of the best in the pharmaceutical world: Abbott Labs, Amgen, Bristol-Myers, Genentech, J&J, and Wyeth. And of course, no pharma portfolio would be complete without Merck and Pfizer. The beauty of PJP is you get well-rounded exposure to a variety of pharmaceuticals, biotech, specialized drug makers, and mass-market drug makers. I f you believe, as I do, in the 'demographic story,' you believe that an aging population will continue to consume drugs at record rates. And, despite regulatory and legal obstacles, consumer demand will likely continue fueling record drug company profits.

"I like PJP as a low- to moderate-risk equity opportunity, and I think it's a great long-term play for steady price appreciation through 2006. However, that doesn't mean I think you should just buy and hold the fund. I would take no more than a 10% drawdown on this position after I bought it. So, whatever your purchase price, if you lose more than 10%, or if the fund drops more than 10% from its high after you purchase it, protect your downside risk with a firm stop loss."

"Hot Hands"

*Each year, **Jim Lowell** assesses his fund universe to find a "hot hand" favorite for the year ahead. Although best known as the industry expert on Fidelity, in recent years he has also expanded his coverage to ETFs. Here, he offers a "hot hand pick" in each area of his expertise.*

"You know the mantra: Past performance is no guarantee of future results. Well, it isn't a guarantee, but it can be a significant predictor. My portfolios have strongly outperformed the market in large part due to our proprietary manager ranking system. Our success shows that managers with consistent career records of outperformance are better bets than managers with weak career records. Still, every year, I alert my members to another pattern of consistent out-performance. I call it my Hot Hands pick of the year.

"The methodology isn't complicated. But does it work? Yes. Following a *Hot Hands* investment strategy at Fidelity from the end of 1983 through the end of 2005, you would have netted a total return of 6631%, while the return for S&P 500 would have been 1237%. On an annualized basis that's 21.1% .

"This year's Hot Hand for actively managed funds is **Fidelity International Small Cap** (FISMX). But there's a new twist: this fund is closed to new investors. However, there is a solution. If you don't already own International Small Cap and still want to participate in this year's Hot Hands pick, I would recommend that instead you should purchase **International Small Cap Opportunities** (FSCOX).

"My Hot Hands exchange-traded fund for 2006 is the **iShares S&P Latin American 40** (ILF ASE), which was also my Hot Hands ETF last year--gaining 54.5% in 2005. Following the Hot ETF investment strategy from the end of 2001 through the end of 2005, you would have netted a total cumulative return of 192.7%, while the Standard & Poor's 500 Index delivered a pitiful 2.7%.

"So, how can you best make use of my Hot Hands ETF strategy in 2006? Buy the iShares S&P Latin American 40. Now, of course I don't advocate lumping all your money into any one or two funds. But I believe that many growth-oriented investors could improve their performance by putting a portion (say 5% to 10%) of their portfolio into my Hot Hand fund and Hot Hand ETF."

A Natural Selection

*"One big trend that has multi-year potential is commodities," says **Yiannis Mostrous**, an expert on both global investing and resources and a contributing editor to the KCI team, a collective tour de force in the advisory industry. Here's his fund of choice for the sector.*

"Oil, copper, nickel, and aluminum are being gobbled up by the growing world economy, yet many commodity markets have suffered from two decades of under-investment in new capacity. In addition, China and India have now reached critical mass, rapidly increasing the demand for many basic materials. Within the universe of commodity funds, the energy funds are the unsurprising standouts. **RS Global Natural Resources** (RSNRX) is overweight energy and has performed spectacularly during the past two years.

"We like the fund due to its ability to buy stocks outside of the energy sector in order to fully capitalize on the commodity story. T he fund has previously taken positions in mining companies as well as other commodity producers. Its been a great two years for energy funds. Regardless of whether 2006 turns out to be an up or down year in energy or commodities, RS Global Natural Resources is a wise buy for investors with a five- or 10-year time horizon."

A Pick for Presidio

***Sheldon Jacobs** literally "wrote the book" on no-load funds, penning the first book on the topic over three decades ago. Here, along with publisher and editor **Mark Salzinger**, he offers his favorite play for the year ahead – the Presidio Fund.*

"One way to make more money than the investment masses is to invest in young funds from experienced managers before the rest of the country catches on. Devotees of this tactic should have felt blessed in May 2005 when Kevin O'Boyle announced the launch of **Presidio Fund** (PRSDX). In the six-month period ended December 31, 2005, Presidio gained 12.6%.

"Kevin was the long-time co-manager of the Meridian Value fund during that fund's heyday, which lasted from the mid-1990s until late 2003. Kevin, who in fact picked virtually all of Meridian Value's stocks for most of the period and managed its portfolio on a day-to-day basis, guided the fund to an annualized return of more than twice the gain of the S&P 500. In addition, Meridian Value was a 'Best Buys' fund in our model portfolio during part of Kevin's tenure at the fund.

"A two-time graduate of Stanford University (a degree in economics and an MBA), Kevin has a keen analytical mind that underlies his stock-picking technique. At heart, he likes to buy quality small and mid-size companies when they are out of favor but showing signs of an operational rebound. Though this approach sounds simple, few managers have executed it as smartly—or made their shareholders as much money—over the years as Kevin has in the process."

Emerging Yields

***Carla Pasternak** is a noted expert in the area of income investing, whose advice is made even more valuable by a newsletter that is designed with separate sections based on various levels of yield and risk. For her top picks, she looks to Chile and Russia.*

"An unrelenting series of 13 rate hikes lifted the dollar to its strongest point in four years and boosted the attractiveness of dollar-denominated assets. That was last year. This year, I expect to see the reverse side of the coin. As dollar-boosting rate hikes come to an end, investors may well start turning their attention to other currencies, such as the euro and euro-denominated securities tracked by my two top selections for 2006.

"Emerging country funds such as **The Chile Fund** (CH NYSE) are likely to be on investors' radar screens in the year ahead. With its super-size 23.5% yield based on last year's humongous $4.34 dividend payout, The Chile Fund is very speculative but also has significant upside. Given that its provided investors an average 58% return year after year for the past decade and a half since its inception, it's really not as speculative as the high yield suggests. Although its yield is sky-high, its investments are actually quite down-to-earth. The portfolio focuses on such essential engines of economic growth such as power generators, retail chains, and paper makers.

"**Central Europe & Russia Fund** (CEE NYSE) is the more conservative of our choices. This closed-end fund paid a $3.05 dividend in December, giving it a 6.7% yield. The fund has an average 1.26% expense ratio, giving it an effective yield of 5.4%. However, total returns (share price plus dividend) have been far higher. Last year, the fund delivered a 54% return and over the past three years, shareholders have enjoyed similar outsized gains, with average returns of nearly 50% a year. Although the share price has rocketed +69% this past year, the shares are still selling at a slight discount to their net asset value. As such, now may be an opportune time to scoop up some shares."

A “Prime” Choice

***Daniel Wiener** , the expert on Vanguard funds–as well as fund investing in general–consistently outpaces the markets, using a conservative, long-term approach. His favorite for 2006, Vanguard PRIMECAP Core, was also his pick for 2005, up a solid 12.1%.*

"**Vanguard's PRIMECAP Core Fund** (VPCCX), my 2005 selection, is also my pick for 2006. The newest stock fund offering from the folks that brought us the top-performing Capital Opportunity and PRIMECAP funds, both of which are now closed to new investors, is a chip off the old GARP, or growth-at-a-reasonable-price block. Given its solid performance in 2005 on our top pick for the year, I don't see any reason why we should be selling out of it, particularly since its portfolio of technology and health care stocks have only just begun to come out of their slumber.

"PRIMECAP Core is an ‘all-cap’ fund run by a team of five managers, each selecting his own basket of stocks independent of the other four, yielding a portfolio of about 100 stocks, of which the ten largest holdings account for about one quarter of the fund’s assets. At the end of December 2005, the 13-month old PRIMECAP Core had already grown to more than $1.2 billion. As I said last year, once investors find this fund they may flood it with cash, so invest here before Vanguard closes the door on this fund too."

Frank’s Foreign Funds

***Walter Frank**, formerly an economic advisor to the Bank of New England, is an expert on asset allocation, specializing in no-load and low-load mutual funds, for over 11 years. For his top fund picks, he looks to two funds offering international exposure.*

"My speculative fund pick for 2006 is **Driehaus International Discovery** (DRIDX). This is a fund which had a spectacular 2005 under the management of Lynette Schroeder who took over the fund in March of last year. Ms. Schroeder had previously managed American Century International Opportunity, a standout international small- to mid-cap fund. She has obviously transferred her stock picking skills successfully to her new fund. Schroeder’s style is rapid-fire stock picking, and this leads to both high turnover and successful uncovering of nuggets that explain the fund’s performance.

"A glance at the fund’s country allocation would make one wonder how the performance has been achieved. 39% of the fund is in Western Europe. Another 34% is in Japan. The Japan contribution to performance is obvious. But Western Europe? Clearly Schroeder is not shy about

investing where others do not go. There are risks here, but the rewards have more than compensated for them

"Our more conservative pick is **RS Global Natural Resources** (RSNRX). Conservative, after being up 42% last year? Well, yes. It is all in how the fund is managed. Andy Pilara who heads the value group at RS funds, and who also manages RS Partners and Value, invests in natural resources companies using the same value criteria that he uses for his other funds. He seeks out good companies whose business is natural resources.

"He wants companies where profit growth can be anticipated, when calculated on a reasonable long-term sustainable price for the product(s) the company produces. He also wants companies that are capable of replenishing the resources they deplete in their normal activity. This fund is not a play on ever-rising natural resources prices. In fact, Pilara expects commodity prices to retreat some over the next few years. Even so, he sees increasing profits ahead for his portfolio companies. That is why we see this fund as a more conservative investment. The fund will provide diversification and should achieve solid returns in 2006."

A Protective Package

*One need not be bullish on the overall market to find gains; indeed, **Martin Weiss** has proven that a bearish outlook can put you in the market's top performing sectors. Here, he offers a package of favorite funds poised to outperform if the US dollar declines.*

"If you live in the US, virtually everything you own is probably denominated in dollars—your stocks, bonds, bank accounts, real estate, even insurance policies. But right now, the dollar is falling; and with America's international finances in shambles, appears vulnerable to a traumatic collapse. So an urgent task for all American investors is to buy protection. Solution: allocate a portion of your money to a diversified portfolio of investments that tend to rise when the dollar falls.

"Three prominent examples:

- **Prudent Global Income Fund** (PSAFX), formerly called Prudent Safe Harbor Fund, keeps about 70% of its portfolio in short-term fixed instruments denominated in foreign currencies.
- **Enerplus Resources Fund** (ERF NYSE) gives you *both* a high dividend yield *and* the potential for substantial capital gains, a rare combination in today's market. This Canadian royalty trust paid out 36 US cents per unit December 20, and another 36-cent distribution is scheduled for January 20.
- **US Global's Global Resources Fund** (PSPFX) is a high performing fund specialized in precious metals and other natural resources.

"Put the three together and you have a nice, broad range of contra-dollar investments with a stake in foreign currencies, energy, and precious metals. The more the dollar falls, the more you're likely to make."

Educated Picks

***Leonard Goodall** has a unique background among advisors; he was the former president of the University of Nevada Las Vegas. The fund expert opts for an equity income position for conservative investors and an international pick for more speculative "market students."*

"Investors willing to take a reasonable amount of risk should consider adding **Dodge and Cox International Stock Fund** (DODFX) to their portfolios. I like this fund for several reasons. First, it is a well managed fund, and its managers know global stock markets well. I recommend the fund also because it is a good way to invest in Japan without making an "all or nothing commitment." I think there is a lot of increase remaining in the Japan stock market, but I would not want to put all my chips on a market that has already experienced a 40%+ price increase.

"This fund has about one-fourth of its investments in Japan, enough to benefit from further gains in that market, but it has an even larger investment in Europe and is well represented in other major world markets. It has a three-year annualized return of 32.5%. Its annual expenses of .77% are unusually low for an international fund. It is a no-load fund and has a very reasonable minimum investment of $2,500. This is a very good way to increase a portfolio's exposure to world markets without significantly increasing portfolio risk.

"The first members of the baby-boomer generation turn 60 in 2006, and this means they are thinking more about retirement and income-oriented investments. A good way for the conservative investor to take advantage of this trend is the **T. Rowe Price Equity Income** (PRFDX), one of the best of the no-load fund companies, and this fund has a long record of consistent performance.

"Although its total return last year was only 4.3%, its three-year average annualized return is 14.3%, and its ten-year average return is 10.3%. It has income as a primary objective, but as a stock fund it also offers the opportunity for capital gains over time. With annual expenses of just .74% and a minimum investment of $2,500, this is a superior choice for the investor who is looking for income and moderate price gains but wants to accept only lower than average risk."

A "Desert Island" Fund

*"There's an old adage that the 'best offense is a good defense' and it's ironically even more true in investing than it is in sports!" says **Keith Fitz-Gerald**. Here, he offers his favorite fund pick for not just the year ahead, but as his favorite "century" investment.*

"Contrary to what most investors believe, being defensive does not mean giving up high growth potential and current income. In fact, if you study the math involved, higher certainty investments like the one I'm about to share with you actually bolster returns because they free up capital for more incremental risk. In other words, by making sure the bulk of your money is stable, you have the flexibility to take a few speculative shots and not worry about risking too much.

"My pick hands down to fit this bill is the **Vanguard Wellington** (VWELX). In fact, I call it my 'desert island' fund because if I had to go away for 100 years and could leave one investment for my progeny, this would be it because of its growth potential and current income. Not only is it one of the oldest funds in existence, but since 1929 its managed to capture nearly 85% of all the market's ups, including a number of 20% plus years. But that's only half the story.

"With approximately 40% of the fund's holdings in high quality corporate and government bonds with a maturity between five and 15 years, the fund is remarkably stable when the going gets tough. That's why it has a three-year Beta (risk measure) of .69 or 31% less than the markets themselves, so you are immediately insulated from the market swings that give most investors ulcers, yet maintain substantially all of the upside potential. Plus, it kicks of a 2.89% yield. In an increasingly challenging environment, I don't think there's a better 'offensive defender' for your portfolio, whether it's $5,000 or $5,000,000."

An "All Star" Choice

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www.moneyshowdigest.com

***Ron Rowland**, editor of* **All Star Fund Trader**, *has an industry-leading track record; his fund portfolio has gained 1069% return over the past 11 years. Here, his top pick for 2006 is based on an expected move by institutional investors into the under-followed micro-cap sector.*

"There are thousands of publicly-traded companies in the US that are usually overlooked when individual investors and institutions build their portfolios. Most Wall Street analysts are paid to provide research on the largest companies. As we move down the capitalization scale, the number of analysts tracking any given stock begins to fall off dramatically. The Russell 3000 Index represents about 98% of the dollars invested in US stocks. The Russell 2000 Index is the most widely followed small-cap index. Now, it has developed a new microp index based on the smallest 1,000 companies in the Russell 2000 along with 1,000 even smaller companies.

"Said another way–the Russell Microcap Index excludes the 2000 largest companies in the US, the ones where the majority of analysts focus. So it is easy to see why these companies are often overlooked when building portfolios–the extremely large quantity of companies combined with the lack of analyst coverage makes it easier to invest elsewhere. Russell and Barclays have changed all of that with the recent introduction of the **iShares Russell Microcap Index Fund** (IWC NYSE), an exchange-traded fund that is our favorite fund pick for 2006. Now, with a single transaction, an investor can gain exposure to the world of micro-cap stocks.

"Institutional investors are constantly on the prowl for new asset classes. Their asset allocation models look for investments that can improve the overall risk:reward profile of their portfolio. Their quest for more and more diversification and risk control leads them to more and more unique asset classes. Micro-cap stocks are just such a class. Until now, institutional investors have avoided this asset class because there was no vehicle that allowed them to access it economically. Institutional investors have long trusted the Russell name, and they have grown to embrace ETFs the past few years. Therefore, we expect a significant shift of assets into the micro-cap area, and since this area represents an extremely small piece of the US stock market, this increase in demand should drive up prices."

Fund Managers of The Year

Each year, in a highly awaited report, **Morningstar** *unveils its "Manager of the Year" awards. Here, editor **Russel Kinnel** takes a look at those managers that it considers the very best in the fund management field, among domestic, fixed-income, and international funds.*

"In choosing the winners of the 2005 Morningstar Managers of the Year awards, we were fortunate to have so many good fund managers who did all the right things for shareholders in a wide variety of markets. In 2005, the markets certainly made a case for diversification. Soaring energy and precious metal prices burned bonds, which hate inflation. As a result, the bond market had a cold year in which funds were lucky to earn 2%. Foreign stocks, fueled by those same commodities and reforms in key markets, produced hot returns averaging 17%. Finally, the typical domestic stock fund returned a lukewarm 7%.

"You might expect that this environment would cause us to diversify with our three Manager of the Year selections, possibly choosing a bear for fixed-income, a bull for foreign stocks, and someone in between for domestic equity. But while we certainly look for managers who had great one-year showings, they also must have produced superior results over a long period of time--a single great year won't cut it. The surest way to making a lot of money for shareholders is to string together a bunch of modest victories in order to produce strong results over the long haul.

"We also look closely at how seriously a manager takes his or her fiduciary duty to shareholders. In the long run, shareholder orientation is closely linked to shareholder returns. We look for managers who put shareholders first when it comes to fees, communication, their own

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investments in their funds, closing their offerings in a timely fashion, and other important issues. A strong Stewardship Grade is therefore a prerequisite for any Manager of the Year contender.

"We're encouraged that so many great managers passed all those tests. It made for very difficult decisions this year. You could make a strong case for a number of managers, but we only chose one for each of the three broad asset classes: domestic stocks, foreign stocks, and fixed-income. It's also worth noting we've been fans of these funds for a long time.

Domestic Stock Managers of the Year:

Chris Davis and Ken Feinberg
Selected American (SLASX) and **Davis NY Venture** (NYVTX)

"In 2005, Chris Davis and Ken Feinberg's abilities really came to the fore. Although it was a treacherous year for financials, this financials-heavy fund was able to thump the S&P 500 and most of its peers. The fund's 10.19% return was far ahead of the 4.91% gain of the S&P 500 because the managers found high-quality financials and some energy stocks that produced remarkable returns. Because turnover at Selected American and Davis NY Venture is in the single digits in most years, successful stock picks in any single year are actually attributable to work the firm has done over many previous years.

"Just as important as these managers' stock investments have been their investments in people. Although their firm is still small, Davis and Feinberg rounded out their analyst staff over recent years with some outstanding hires. For example, Kent Whitaker, who joined Davis Selected Advisers after working for Amoco, has played an important role in finding the energy names that have paid off recently. We're also impressed by Davis and Feinberg's focus on doing the right thing for fund owners. There are hundreds of funds where portfolio managers show a half-hearted commitment to shareholders with a lack of investment in their funds or needlessly high fees. Davis and Feinberg show that is not how responsible fiduciaries behave.

Fixed-Income Managers of the Year:
Tad Rivelle, David Lippman, Laird Landmann, and Stephen Kane
Metropolitan West Total Return Bond (MWTRX)

"MetWest takes a creative approach to managing fixed-income assets, and it has produced great results. The firm will adjust its funds' interest-rate sensitivity, shift into different sectors of the bond market, or bulk up on individual bond issues when opportunities present themselves. The team used corporate bonds to push this fund past its average peer in 2004, and in 2005 it made profitable forays into high-yield bonds, bank loans, and other specialty areas of the market, helping the fund nearly double the return of its average peer.

"In 2005, the fund's 3.11% return topped 95% of its peer group. The fund's bold approach burned it in 2002, as a big bet on WorldCom bonds turned sour, but it has since recouped that lost ground and then some as the market has corrected its overreaction to credit risk. Despite a 1% loss in 2002, the fund has delivered an annualized return of 7.22% since its 1997 inception, which easily beats the average intermediate-term bond fund's 5.84% return. That's a huge margin in the high-quality bond world, where a few basis points worth of outperformance is a big deal. MetWest also gets an A for stewardship because management invests in the funds and the firm keeps expenses low.

International Stock Managers of the Year:
Rob Lyon, Matt Pickering, and Jerry Senser
ICAP International (ICEUX)

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"Funny how great stewards can produce great returns. Lead manager Rob Lyon's fund gets an A for overall stewardship. Although small, the fund has always charged just 0.80% to retail investors even though many fund companies mark up their foreign-fund management fees simply because they can get away with it. Likewise, the fund's board is paid in fund shares. Just as important, ICAP has a healthy corporate culture that has kept turnover among its investment professional staff quite low.

"In May 2005, the fund converted from a Europe fund to a broad foreign-stock mandate because management was finding a lot of attractive names in Japan. The move was fortuitous, as Japan enjoyed a strong rally in 2005. Lyon and his ICAP colleagues blend top-down analysis with stringent valuation work to find attractive companies with potential. They run a concentrated portfolio of about 35 names, most of them large-cap. Lyon brings an unusual wrinkle to that concentrated portfolio of value stocks, though. He trades around positions pretty rapidly based on changes in valuation. Although the companies in the portfolio don't change all that much, their position sizes are always in flux."

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