

Market Outlook

Luck Favors The Prepared

2006 has started with a bang. After just 4 trading days, the S&P 500 is already up a little more than 3.0% for the year; a remarkable and refreshing change from 2005 where it took all year to gain just 4.8%.

If market sentiment is turning positive, our portfolio preparation over the last several months has positioned us to see year's worth of pent up returns.

There has been a lot of economic growth that has been practically ignored by the market over the last 2 years. Real GDP has grown at an average annual rate of 4.1% for 10 straight quarters -- the economy's best performance since the mid 80's. Corporate profits have increased at a double-digit pace for nine straight quarters pushing after-tax earnings to a record high 8 percent of GDP.

All this good news barely moved the market last year or the year before. At times market sentiment got so negative it seemed like Chicken Little was running Wall Street. While many people sold stocks at prices that make sense if the sky is falling, we took advantage of Wall Street's fears to find bargains in companies that are benefiting tremendously from all this economic growth.

For our investments to pay off, market sentiment needs to turn positive; however, market sentiment is difficult to predict because it is emotional rather than

rational. Who knows why Wall Street turned optimistic after the new year? The turning point may have been triggered by the release of the Federal Reserve's minutes indicating that they may soon be finished raising interest rates for this cycle. It could have been the lower prices for gasoline and natural gas we saw in the 4th quarter. It could have been that continued reports of low inflation and strong economic growth finally sunk in. We'll never know for sure.

Predicting the market's emotions is like trying to predict where lightning will strike. Just as there are certain weather conditions that tell you that lightning is a possibility, there are certain market conditions that tell you a change in market sentiment is due.

For the past 2 years we've had very positive economic growth and very negative market sentiment. The longer this divergence continued the bigger the ultimate correction will be -- one way or the other. Either market sentiment will be proved right and the economy will tank, or market sentiment will turn positive in recognition of the economy's strength.

The market's recent upturn tells me that market sentiment is turning positive. I think we are about to see a couple of year's worth of pent-up returns delivered in a very short time.

If you've been following our advice, you are already well positioned. But, its worth reviewing our best stock ideas in each sector to be sure you're in the right ones.

Inside

Market Outlook	1
Best Ideas Portfolio	5
Stock Alert Watchlist	6
Watchlist Focus Stock: ImClone Systems	7
Our Investment Philosophy	8

Energy

Our energy investments are beginning to perform again. Following last week's announcement that the International Energy Agency has stopped releasing crude from government reserves, the market is beginning to realize how tight the supply and demand for oil truly is right now. The economy is booming so

the upward pressure on crude oil and natural gas is not going away.

In the past, OPEC has been able to keep a lid on oil prices by using its excess production capacity to pump more oil anytime the price got high enough to make alternative energy sources economically viable. But, now that OPEC is producing all it can, there is no cushion of excess capacity left. So now OPEC doesn't have the ability to hold prices down by producing more oil anymore.

The illusion that the energy problem is under control is driven by three factors: all-out OPEC production, the International Energy Agency's (IEA) release of 60 million barrels of oil last quarter, and a mild winter in the U.S.

But things can change quickly. OPEC is talking about cutting back production, the IEA stopped releasing oil from its reserves in late December, and there may still be some cold days ahead before winter is over. Gasoline prices are already going back up all over the country.

High oil prices did not derail the economy in 2005 and won't in 2006. I don't see a recession on the horizon unless the Fed makes a mistake and pushes interest rates up too far. Barring that, I think the PEs on lots of energy stocks could increase to something closer to the market average. The S&P 500's PE is about 16 so Valero (nyse: VLO) and Tesoro (nyse: TSO) would have to appreciate by 45% just to get to a market average PE assuming no further growth in earnings. That kind of upside justifies keeping our energy positions open.

Refiners

Last year, we recommended three refining stocks - Valero (nyse: VLO), Premcor (nyse: PCO), and Tesoro (nyse: TSO) -- and all three just about doubled. Premcor was taken over by Valero but we continue to recommend Valero and Tesoro.

Earnings at Valero and Tesoro are booming, but the stocks continue to trade at PE ratios well below average. The main reason stocks like Valero trade at 11 times earnings is that Wall Street doesn't believe the earnings are sustainable because refining has historically not been an attractive industry.

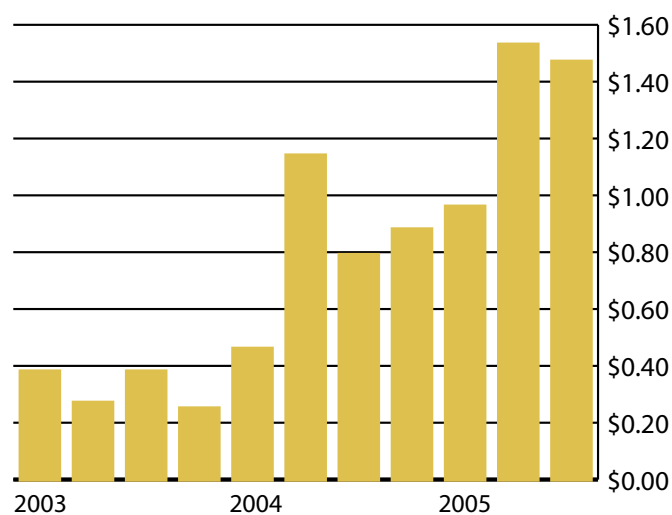
Last year, refining capacity became an issue. There has not been a new refinery built in the U.S. since 1976. That gives you a good idea of how much excess capacity there was in 1976 when the economy was much smaller. It took 30 years of economic growth to absorb the excess capacity that has kept refining margins low for decades. Now refinery capacity utilization now regularly tops 90% and anything that involves downtime -- from routine maintenance to natural disasters -- has become a market-moving event.

The prospects for new refinery capacity coming on-line this year, next year, or the year after that, are slim to none. Experts tell me that it will take 10 years to bring a new refinery on-line, with most of that time spent simply getting all the permits. Everytime someone proposes a new refinery, citizens groups mobilize to stop it. The country needs more refineries, but no one wants to live next to one. This is not going to change anytime soon.

The other way to deal with the lack of refining capacity is for the demand for refined products to decline. Economists say that when the price of something goes up, the demand goes down. But 2005 showed that when gasoline prices rise a lot, demand falls off only a little. Unless there is a recession, I don't see the demand for refined products dropping significantly.

Valero (nyse: VLO)

Earnings are Booming
(Quarterly Earnings 2003-2005)



Oil Producers

We recommended PetroKazakhstan (nyse: PKZ) in July 2005 at \$37. It promptly jumped after only a few weeks when the Chinese National Oil Corporation's \$55 offer was accepted in a fierce competition that included the Oil and Natural Gas Corporation, the Indian energy company and Russian rival, Lukoil.

Many of the things we found attractive about PKZ we also see in Chaparral (nasdaq: CHAR). Like PKZ, Chaparral's oil reserves in Kazakhstan are desirable because they are outside of the volatile Middle East and close to pipelines that can carry the crude to Russia, China, or India.

Natural Gas Producers

We continue to recommend Edge Petroleum (nasdaq: EPEX) a natural gas producer with an exceptional track record of drilling successful wells. The market for natural gas is very different from the market for crude oil. Natural gas sells to a much more localized market. Generally, you have to use it near where it is found or have a pipeline to carry it to the user.

It is much more difficult to transport than crude oil. Before it can be shipped by tanker, it has to be cooled until it becomes a liquid – a highly volatile and explosive form. There are very few Liquefied Natural Gas (LNG) terminals because they are so dangerous. When a LNG tanker enters Boston Harbor all other maritime activity is halted. Therefore, not much gets shipped and what does is expensive.

To illustrate the problem of transport look at Iraq, which has lots of natural gas, so naturally, we built lots of electric generating plants in Iraq to run off of natural gas as part of the rebuilding process. But it wasn't until the plants were built that we realized that Iraq doesn't have a pipeline or distribution system to transport the natural gas from the fields to the electric generating plants. So all had to be retrofitted to run on oil which can be transported.

A natural gas field isn't guaranteed to sustain production as long as an oil field. Generally reserves have a shorter life span. Therefore there is a premium on a company's ability to successfully find new natural gas fields to add to reserves.

Because natural gas is a relatively clean and efficient fuel, in addition to warming our homes it is used to run refineries, to generate electricity, to produce the steam that heats oil sands into crude, and to produce fertilizer.

Natural gas prices hit an all-time high recently before pulling back somewhat. Russia just showed it was willing to use its natural gas reserves as a political weapon when it tried to quintuple the price for Ukrainians. By cutting off the Ukrainians, the Russians inadvertently cut off supplies to Europe and showed the world how fragile the supply of natural gas has become.

Governments around the world have established strategic oil reserves to moderate prices in the event of a supply disruption, but there is no strategic natural gas reserve so they cannot as easily manipulate the price of natural gas.

Drillers & Suppliers

At today's oil prices, a lot of exhausted oil fields are economic again but it takes a lot of work to make these old oil fields productive again. We recommended Lufkin Industries (nasdaq: LUFK) in December because they provide the pumps (which are the "picks and shovels") needed to make these fields productive again. Previous boom/bust cycles in the industry have left only two U.S. competitors and Lufkin in the only publicly traded one. Now that the industry cycle is on the upswing, Lufkin is perfectly positioned to make money on the sale of new units, spare parts, and the servicing of its large installed base.

Materials

The 2+ billion people of China and India are progressing up the economic ladder. The improvement in the standard of living for so many people has put an increasing demand on farms to produce more food. As farmers try to maximize their yields, there is an increased demand for fertilizer to replenish soil nutrients. China is now the top consumer of fertilizer, using over 40 million tons in 2004 -- more than the U.S. (19 million tons) and India (16 million tons) combined.

Agrium (nyse: AGU) is one of the few pure-play, publicly traded fertilizer companies. I believe it is a low-risk, above-average-reward investment that participates in an essential industry. The stock sports a PE of less than 10 so there is still time to buy this one before the investment community wakes up or a potential buyer surfaces.

Healthcare

Elan Corp. (nyse: ELN) closed the year at \$13.93, more than double its price from when we first recommended it in May. Last March, ELN's stock price dropped from \$27 to \$8 when they voluntarily withdrew their multiple sclerosis drug, "Tysabri" from the market following reports that 2 patients had contracted a potentially fatal infection of the brain, called PML. When a third case of PML was discovered and 2 of the patients with PML had died, the price dropped to \$3.

By May the stock recovered to about \$6.50 and the key question about Elan was, "will Tysabri ever return to the market?" We contacted 1,535 Marketocracy members that had traded ELN in their model portfolio to ask them to help us answer the question. Over 100 filled out a survey. We heard back from members that were doctors and MS patients (including some that participated in the Tysabri clinical trials), nurses, lab technicians, industry executives (including a competitor of Elan), scientists, etc. Together, they helped give me a 360 degree view convincing me that the FDA would reapprove Tysabri and giving me the confidence to recommend Elan.

Since then, Elan has doubled and the key question that will determine whether Elan can double again is, "how profitable will Tysabri be?" Three Wall Street firms, Bank of American, Citibank, and Merrill Lynch recently reiterated their Sell recommendations citing a belief that Tysabri sales will ramp slowly. Our research is telling us quite the opposite.

Kelly Martin, Elan's CEO, made a great presentation at a Morgan Stanley conference on January 5. We issued an alert on January 4 to let subscribers know in advance that this could be a real turning point as Elan has a great message to deliver and Citibank, Bank of America, and Merrill Lynch have been over-

ly negative on this stock. This week, Elan made a presentation at J.P. Morgan's conference. As we expected, there were not any new announcements, but with Wall Street, if you want them to remember something you have to deliver the message more than once. The recent price movement tells me that the great Wall Street herd may be starting to change its pessimistic view of this stock.

We also recommend Biogen (nasdaq: BIIB), Elan's 50% partner in Tysabri. We think that because of Avonex, Biogen's existing market leading MS drug, this company has the right sales force to market Tysabri.

The FDA has granted Tysabri a priority review which means that a decision on whether Tysabri is reapproved is due by March 26, 2006.

Technology

Click Commerce (nasdaq: CKCM) is a software and services company that has established themselves as an end-to-end leader in RFID technology supply-chain management and in Global Data Synchronization (GDS). Most companies have their own way of numbering and accounting for products and locations. As products move from one location to the next in the value chain, they have to be re-entered into a different system with its own way of numbering and accounting for it. Millions of man-hours are spent re-entering this data as products move from manufacturer to shipper to warehouse to retail location. The Global Data Synchronization Network eliminates this problem by establishing a standard set of product and location IDs for everyone along the value chain. Click Commerce is one of only 5 U.S. data pools certified to be an on-ramp to the Global Data Synchronization Network.

CKCM has a PE of 25 which I think is cheap for a company that more than doubled its revenues last year. We've seen a 50% return since we recommended the stock in November.

continued on page 8

Best Ideas Portfolio

These are the stocks from our Watchlist that I think are the best ideas. I feel pretty good about these recommendations as a whole. We've got investments in energy, materials, healthcare, and technology. The portfolio is diversified among stocks that each have the potential deliver great returns.

Often the investors who achieve the highest returns accomplish this by concentrating their entire portfolios in a single sector. This can be spectacular if you're right -- and a disaster if you're wrong. The trouble is that no one is right 100% of the time, so investors who follow a concentrated strategy (no matter what the concentration) eventually flirt with disaster. An investment strategy that requires you to be right 100% of the time is not wise. That's why the right kind of diversification is important.

Building a diversified portfolio that can deliver great returns is hard. The secret is to find stocks with

superior prospects, but where each stock's returns are driven by different factors. This is hard because no one is an expert in enough different fields to do the job alone. I know I can't do it alone. That's why I have a team.

It takes different expertise to pick the right oil stocks than the right biotech stocks or the right technology stocks. Different people have the expertise and the track record for each sector. No one is the best expert in every sector.

I aim for doubles, but I know I'm not going to be right 100% of the time. I've developed my investing approach so I can be wrong sometimes and still make a lot of money for my shareholders and subscribers and beat the market.

Ken Kam



Best Ideas Portfolio Positions

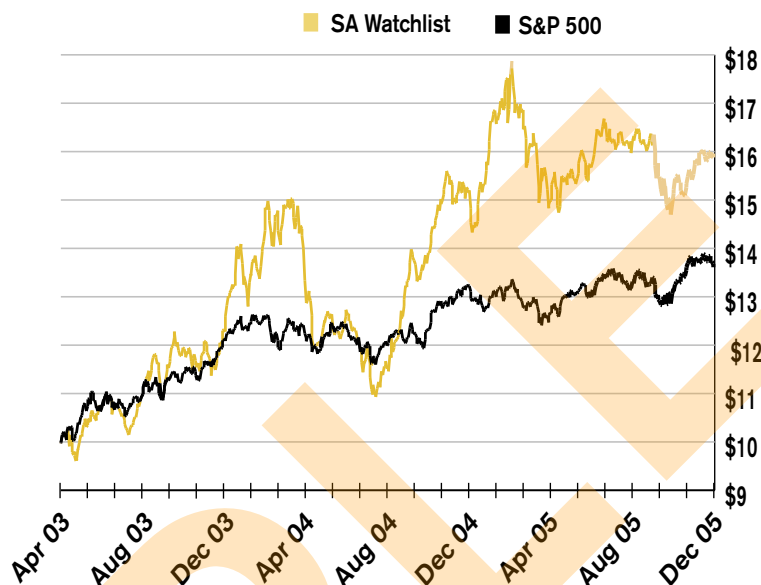
Ticker	Company	Recent Price	Comments
VLO	Valero Energy Corp.	\$51.60	Refining capacity shortage drives continued earnings growth plus PE expansion.
TSO	Tesoro Corp.	\$61.55	Refining capacity shortage drives continued earnings growth plus PE expansion.
CHAR	Chaparral Resources	\$5.08	Chinese, Indian, and Russian oil companies covet this company's oil reserves.
LUFK	Lufkin Industries Inc.	\$49.87	Benefiting from thousands of old oil wells that high oil prices have made economically attractive again.
EPEX	Edge Petroleum Corp	\$24.91	Company had 95% success rate in drilling productive wells in the U.S. for 2005.
AGU	Agrium Inc.	\$21.99	Growing demand from China and India for fertilizer to feed a growing middle class.
ELN	Elan Corp.	\$13.93	Tysabri's return will fuel the next double
BIIB	Biogen Idec Inc.	\$45.28	Tysabri's return will fuel the next double
CKCM	Click Commerce Inc	\$21.02	Another successful acquisition drives continued fast growth.

Stock Alert Watchlist

Returns 58.8% since inception versus 36.1% for S&P 500

Every two weeks, we select 2 or 3 stocks as Strong Buys - stocks that the best investors are currently buying while the rest of the investors are selling and subtract the same number of stocks that the best investors no longer favor as heavily.

We use this watchlist to identify candidates for further research to determine whether they warrant addition to our Best Ideas Portfolio.



Stock Alert Watchlist Positions

Ticker	Company	Date Recommended	Buy Price	11/30 Price	Return Since Issue Date
TS	Tenaris SA	4/11/05	\$59.29	\$114.50	93.12%
PCR	Perini Corp.	6/6/05	\$15.53	\$24.15	55.51%
SPI	Scottish Power PLC	3/28/05	\$30.11	\$37.38	24.14%
BAM*	Brascan Corp.	9/6/05	\$40.79	\$50.33	23.39%
LH	Laboratory Corp of America	10/31/05	\$48.25	\$53.85	11.61%
BHS	Brookfield Homes Corp.	8/8/2005	\$45.05	\$49.73	10.39%
AGU	Agrium Corp.	11/28/05	\$20.28	\$21.99	8.43%
AZN	AstraZeneca plc	10/31/05	\$44.90	\$48.60	8.24%
IVGN	Invitrogen Corp.	11/28/05	\$62.36	\$66.64	6.86%
SJT	San Juan Basin Royalty Trust	10/31/05	\$40.89	\$43.58	6.58%
CG	Carolina Group	10/17/05	\$41.28	\$43.99	6.56%
STX	Seagate Technology	9/19/05	\$18.91	\$19.99	5.71%
ASH	Ashland Inc.	9/19/05	\$55.99	\$57.90	3.41%
BER	WR Berkley Corp.	11/14/05	\$46.58	\$47.62	2.23%
IMCL	Imclone Systems Inc.	6/20/05	\$34.39	\$34.24	-0.44%
PGN	Progress Energy Corp	12/12/05	\$43.50	\$43.31	-0.44%
CRYP	Cryptologic Inc.	11/14/05	\$20.83	\$19.59	-5.95%
ENWV	Endwave Corp	12/12/05	\$12.60	\$11.78	-6.51%

* Ticker change for Brascan Corp on 10/5/05 from BNN to BAM

Watchlist Focus Stock

ImClone Systems

by Gary Franklin, *m100 member*

After underperforming in all of 2005, Wall Street finally learned what ImClone investors feared: Amgen's Phase III product Panitumumab met all endpoints.

Founded in 1984, ImClone Systems (nasdaq: IMCL) is a biopharmaceutical company that focuses in the area of oncology. Its only marketed product is Erbitux which is approved for treatment of patients with EGFR-expressing, metastatic colorectal cancer who are intolerant of chemotherapy. Erbitux is co-marketed by Bristol-Myers Squibb in the United States and Merck KGa in Europe. ImClone has a \$3 billion market cap, net cash of about \$200 million, and trades at 40 times trailing earnings.

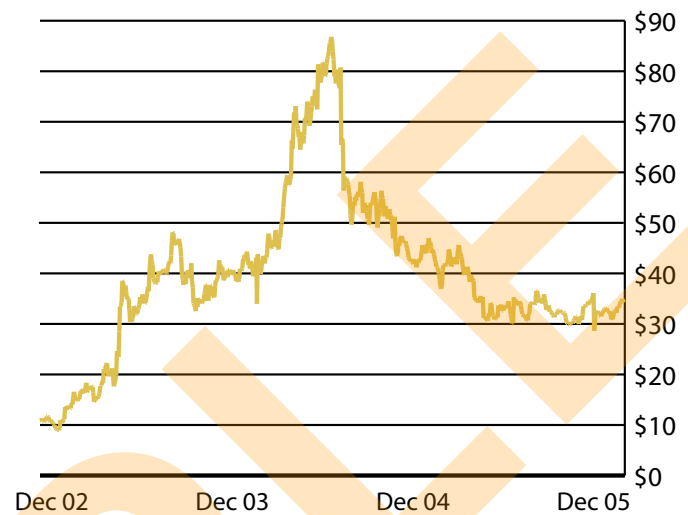
While the actual data from the phase III trial of Panitumumab is unknown right now, Amgen is so confident in the product that it bought out its partner Abgenix for a 54% premium soon after the announcement that the drug met all primary and secondary endpoints. With the convenience of less frequent dosing and a lower incidence of infusion toxicities, some believe Panitumumab will grab 60 percent to 70 percent of the colorectal cancer treatment market in about three to four years.

That would be horrible news for ImClone as they only have one product on the market, but let's get a reality check for IMCL as an investment right now:

1. The earliest Panitumumab would be on the market is 7 months from now.
2. Erbitux is proven and well established as off-label use increased from 8% to 18% sequential in Q2
3. Erbitux also saw 87% of patients remain on therapy compared to 80% in previous quarters.
4. There is an unmet medical need that could allow two competing products to both enjoy success.

Stock Price

Imclone Systems (nasdaq: IMCL)
1/1/03 to 12/30/05



In addition, ImClone was granted priority review status for Erbitux label expansion into Head and Neck Cancer in Q4. This market has been estimated at about \$400 million and has not seen a new treatment in decades. The company has three other label expansion opportunities in 2006. Each approval equals \$250 million payment to ImClone from Bristol Meyers.

The Best Investors have been buying into the Head and Neck Cancer priority review by increasing their holdings by over 110% over the past three months. The Best continue to accumulate even in the most recent weeks as we get closer to Head and Neck Cancer approval.

My opinion is to look at IMCL as a short term trade right now. Accumulate in the low 30s and sell in the high 30s on approval. Keep the stock on your watch list and see how the company does with the new label expansion, news flow and competition from Panitumumab in the second half. My opinion is that IMCL could prove to be a much better buying opportunity in the second half of the year as the standstill agreement with Bristol Meyers ends in September 2006 and Erbitux will be looking for other label expansion opportunities. If the probability of continued Erbitux label expansion and limited erosion from Panitumumab is high enough, I would suspect Bristol Meyers will buy-out the remaining 80% of the company it doesn't currently own as BMY would be on the hook for another \$500 million in approval payments.

Economy

The latest revisions to the economic statistics show that the U.S. economy grew 4.1% in the third quarter of 2005.

The Federal Government continues to pump a lot of fiscal stimulus into the economy by running record budget deficits. But, the Federal Reserve has been raising interest rates from the 50 year lows set 2 years ago in order to fight inflation which has historically followed periods of low interest rates.

In other words, the Federal Government has its foot on the economic accelerator while the Federal Reserve is tapping on the brakes. This is not a good way to drive a car, and it's not a good way to drive the economy. This may be why the market

has been lurching forwards and backwards without making much overall progress over the last 2 years. But with the change in leadership at the Federal Reserve this schizophrenic mix of policies may be coming to an end.

It is not often that a President gets to handpick the Chairman of the Federal Reserve. I don't think President Bush would have appointed Ben Bernake to succeed Alan Greenspan if Mr. Bernake's views on interest rate policy were significantly different from the President's. So for 2006, it's likely that the Federal Reserve will stop tapping the brakes giving the current economic expansion more room to run.

A change in interest rate policy would put an end to the choppy market we've endured over the last 2 years, and trigger the next big move to the upside.

The Federal Government has its foot on the economic accelerator while the Federal Reserve is tapping on the brakes.

Our Investment Philosophy

Always Field the Best Team

No One Style Works all of the Time...

The sectors and styles that did well last year are unlikely to do as well this year. Why? Because opportunities to outperform the market come to fruition when the market finds them and starts to put capital into them. This causes prices to go up, thereby delivering above-market returns to early investors, while at the same time reducing the opportunity to outperform in the future. Opportunities to outperform the market are always temporary – at least you hope so, otherwise your excess returns would never materialize.

...But There's Always Something Outperforming

The market is never uniformly bad. It is often the case that the same factors that hurt one group of companies benefit others. No matter what the future brings, some

areas of the economy will do better than average and some will do worse.

The Right Team at the Right Time

The key to outperforming the market over the long-term is the ability to adapt as sectors and styles come in and out of favor. The m100 are the most skilled stock pickers we can find for the areas of the market that are performing well. By reevaluating the m100 each month, the group constantly adapts to take advantage of the best opportunities to outperform the market.

We re-evaluate the m100 once per month, keeping the top performers, and benching those whose investment styles are out of favor. On average, about 85 members stay in the m100 each time we re-evaluate. Of the 15 who enter each month, about half of these have also been in the m100 at some point in the past.