



The Calandra Report

April 29, 2003 · Newsletter No.8

The roundup

Watch List

- **DRIV** passes \$17
- **RATE** notches \$7
- **IIH** at \$2.60
- **OTCM** nears \$8.50
- **CAT** near \$53
- **AMRN** flat
- **OVTI** hits \$24
- **AWA** hits \$3.20

Comment: The stealth bull market continues, especially among small-cap stocks. Nearly all of the Watch List's members have flown out of reach of our conservative purchase targets. Exception: We managed to snag Royce Micro Cap Trust (OTCM) at \$8, so it goes onto the Recommended List.

This is the eighth issue of [The Calandra Report](#). The new service rounds up the strategies, facts and thoughts of the global strategists, market timers, researchers and company executives I've come to count on in my 20 years of financial reporting. The **Watch List** and **Recommended List** appear below and along the sides. *(Please pay special attention to my company notes in the lists, seen in the tables at the end of this report.)*

- "There is," French writer Victor Hugo once commented, "nothing so powerful, not all the armies in the world, as an idea whose time has come." In the small-cap world, where more than two-thirds of all publicly traded U.S.-listed companies have no Wall Street coverage, the idea is coming fast. "Accelerate change," says David Hirschhorn of [The Amara Group](#), a small Southern California investment firm. Hirschhorn and his partners pursue companies with heavy insider ownership and little inclination to boost outside shareholders' net worth. The pursuit of the small-fry company increasingly involves dissident shareholder proposals known as proxy battles. Example: B. Riley & Co.'s proposal to boot board directors at tiny **Celeritek** (CLTK), a money-losing chipmaker for wireless devices. Last year, Celeritek rejected a \$107 million offer from **Anaren Microwave** at a higher stock price. Amara Group, B. Riley and others are after the small-fry, and I think we should be, too. Hirschhorn, using spreadsheets and stock screens, says his group has identified more than 800 companies that trade at less than 5 times enterprise value (market capitalization minus cash on the books). At boutique investment firm B. Riley in Southern California, a new **cash-rich index** tracks companies that can't possibly stay as cheap as they are now. Earlier this week, I referenced the index on [CBS MarketWatch](#). Now, I'm listing several of the companies in the index, which has doubled in price since its inception in October 2002, a time when stocks of all stripes were getting destroyed. One of them, **Quovadx** (QVDX), sports a \$65 million market capitalization but has \$50 million of cash. The cash is declining at a pace of about \$1.5 million every three months, and the folks at B. Riley figure Quovadx, a maker of integration software for corporations, will reach positive cash flow by year-end. Another, networking equipment maker **JNI** (JNIC), has a \$103 million market worth on Nasdaq and about the same amount

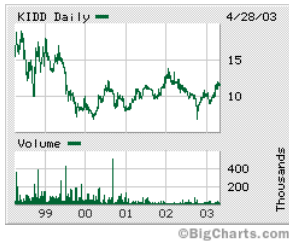
Recommended List

- **OTCM** is newest member
- **CRESY** flirts with \$8.50
- **EEFT** added as "speculative buy"
- **FWHT** nears \$13
- **BAE Systems** (BAESY) above \$8
- **KRY** hovers at 80 cents
- **ITRA** steady at \$1
- **Candente** (CA:DNT) holds gains
- **WHT** steady at 90 cents
- **Wolfdan** (CA:YWO) under pressure

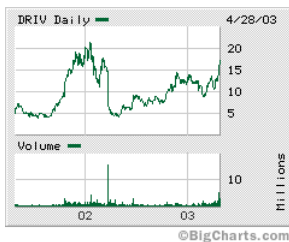
in cash, but only put a stock-buyback plan in place last month. B. Riley sees positive cash flow in the second half of this year. **SonicWall** (SNWL), an Internet security company with a revolving door in its executive suite, is also on the [B. Riley](#) cash-rich list.

- No one really wants a proxy battle, but sometimes, that's what it takes to accelerate change. Take 100-year-old **Warwick Valley Telephone** (WWVY), a telephone company in upstate New York. The company, also known as WVT Communications, has 30,000 customers. It's profitable. It's thinly traded. Its stock is going nowhere. Lawrence J. Goldstein of hedge fund **Santa Monica Partners** says one of the company's holdings is worth more than the entire \$135 million market cap. Warwick owns 7.5 percent of Orange County & Poughkeepsie Limited Partnership, which in turn wholesales minutes to cell-phone operators. More than two-thirds of Warwick's profit comes from Orange's dividends to partnership holders, who include **Lawrence J. Goldstein** and another hedge fund manager, unrelated **Phillip Goldstein** of **Opportunity Partners**. "The basic situation is that this little, plain old telephone company in Warwick, N.Y., about two hours out of New York City, owns a remarkable investment," Lawrence Goldstein calls to tell me. "OCP, believe it or not, is arguably the fastest growing, most profitable, financially strongest company in the world. It achieved a 66 percent cash growth rate in the past five years, and last year had a pre-tax profit margin of 85 percent, a return on equity over 100 percent and an equity/asset ratio of 98 percent. We believe Warwick Valley Telephone's investment in this company is worth more than WWVY's market value." Phillip Goldstein of Opportunity Partners filed several shareholder proposals, all of them soundly defeated in the company's annual shareholder meeting last week. "There were little old ladies there in blue wigs thinking they were going to lose their jobs if they voted for our proposals," Lawrence Goldstein at the Santa Monica hedge fund (based in New York) says to me. Warwick, in its official filing on the dissident proposals, said Phillip Goldstein's estimates of potential value of the company's stock were "purely speculative, and (the) valuation of the company's interest in OCP appears to take no account of the factors usually considered, such as the liquidity or illiquidity of the market for such interests, the specific activities of the company and its financial structure and industry trends." The company says the dissidents treat the partnership "as one might if it were a U.S. government bond with a 30-year maturity." Lawrence Goldstein tells me the partnership is worth at least \$100 million alone. "They balk at the idea of selling it because they have to pay income tax. They'd still wind up with \$65 million after tax. They could spin it off and get a favorable tax ruling," he says from his Larchmont, N.Y., office. Lawrence Goldstein is now

pursuing the idea of a rights offering for Warwick shareholders. He's fashioning a letter to Warwick's top executive.



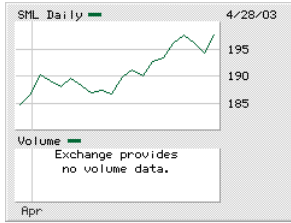
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- Hedge fund manager Lawrence J. Goldstein tells me he has 700,000 shares of another company, **First Years** (KIDD), a maker of child-safety and other products for toddlers and infants. (Note: I used to own this one a long time ago, and made money.) There are preliminary shareholder filings for First Years, one to battle a poison-pill provision and another to nominate an outside board director. (These filings come, once again, from the unrelated Phillip Goldstein at Opportunity Partners, who has become a friend of Lawrence Goldstein "since he showed up at First Years in April 2001 filing a proxy contest.") First Years, says Lawrence Goldstein, "is a fabulous company, profitable, and I've owned it a long time, but what bugs me is a period of flat sales and declining earnings, and I have suggested 16 initiatives to increase business." He laments, "There are many products this company does not make, so why not license its name for furniture and other things? Every dollar that comes in would be pure profit. This company has never made an acquisition, yet it has the cash. Capital expenditures are tiny. They are generating cash. They have a stock buyback authorized but have not acted on it in a year and a half. It's a \$12 stock with more than \$2 of cash. They have to do something with the cash." Goldstein is a patient sort, but patience, he tells me, has its limits. He has been in the business of investing for 46 years, and he's owned First Years shares for much of its publicly held life. Some of the past 10 years or so have been spectacular for First Years and others just plain dull. "I think a change of leadership may be what's needed here. The board, while appearing independent, is definitely an inside one," he says. "I mean, I don't own a company so they can use their cash to get a 0.7 percent return in the money market."
- **Data tool:** Goldstein points me to what I must say is the most sublime and accessible source of SEC filing information I have ever seen, Fran Finnegan's [SEC Info.com](http://www.secinfo.com). Finnegan, a former investment banker, uses an office near the San Francisco Giants ballpark on the city's waterfront to parse the millions of words that are contained each day in Securities and Exchange Commission electronic filings by publicly held companies. **SEC Info.com's** standout feature is a search function that will benefit any money manager or individual investor looking for specific names, themes or events in daily filings. "I'm the only one using a real text-parsing engine to build my content, to generate the billion-plus links among the filings, which allows my users to quickly dig down or jump to what they're looking for," says Finnegan. "At least one money manager is looking at systematic correlations on filing times and/or words within filings

regarding subsequent price movements. And the SEC is polling my site looking for stuff their internal systems don't show, but they're not communicative about why." SEC Info.com's plain-as-vanilla headings include acquisitions and disposals, director resignations and changes in control. The search function lets users troll for specific words or phrases in such categories as registrants, subjects, businesses and industries. For more information, go to www.secinfo.com.



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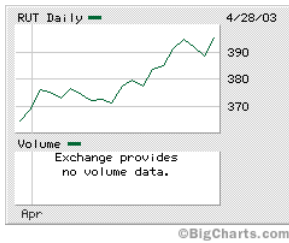
- Chart note:** Since April 1, small-cap stocks as measured by the S&P 600 Index (see chart at left) have risen 6 percent, and some of the companies on **The Watch List** and **Recommended List** are up even more. There's room for more gains, as evidenced by the decrease in market-wide risk tolerance in the junk bond market, which is often an indicator of the welfare of small, cash-hungry companies. Market-wide risk tolerance, says strategist **Mike Darda** at [Polyconomics Research](http://Polyconomics.com), has recovered from the crisis levels seen in late 2002. "We can see this in the Brady and domestic junk spreads, which have staged an extraordinary rally, narrowing 363 basis points and 385 basis points respectively. It is worth pointing out," says Darda, "that this rally has been driven by higher-risk credits, not just the minor sell-off in zero-risk Treasuries, as raw junk yields have collapsed by 355 bps over the same period."



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- After the Monday rally that saw better than 2-to-1 positive breadth on both the NYSE and Nasdaq, here is what strategist Richard Dickson at **Lowry's Reports**, a pioneering firm in technical analysis, is telling his clients: "(The) rally took all three major large-cap market indexes back to Wednesday's highs, which, for the DJI also meant a test of the March recovery highs and for the S&P and NASDAQ a test of the January recovery highs. Volume, however, was substantially less than that which occurred on any of these prior highs, meaning yesterday's rally probably qualified as a light volume test of these highs—something usually considered as a negative technical sign." Dickson has mixed views on how long the major averages can continue their rally. "The DJI, S&P and NASDAQ all face important resistance levels. For the DJI, the March high at 8,521 offers immediate resistance, followed by the highs (intraday) at 8,869 from early January and 9,043 from the November high. The S&P has already exceeded its March high but faces additional overhead resistance from the January high at 935 and the November high at 954. Equivalent resistance levels for NASDAQ are at 1,476 (Jan. high) and 1,521 (Nov. high). Given the current technical condition of the market, we think it highly unlikely that the indexes would move above all these levels in a sustained move without first suffering some sort of pullback. Over the intermediate term (two to three

months) we think the weight of evidence indicates the market has more to go on the upside, possibly moving out of its 10-month range to new recovery highs." For more, see: Lowry's Reports at www.lowryreports.com.



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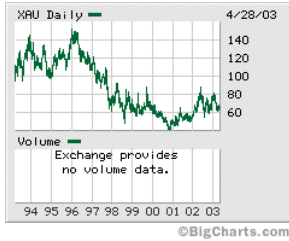
- **Gold notes:** The buzz at the [Las Vegas Precious Minerals Conference](#) that just concluded was the exchange-traded fund that the World Gold Council is planning for North America. The fund would follow one already sponsored by the trade group in Australia. The ETF, which would trade like a stock, likely will list on the NYSE as soon as next month. Executives from the gold council won't comment while the fund is in registration at the SEC, but some observers say the fund, if embraced by investors, could double the investment demand for physical gold among U.S. investors. Investment demand for gold makes up a small part of the overall demand for the precious metal—as little as 20 percent—yet small increases in investment demand are credited with nearly all of gold's rallies in the past 25 years.



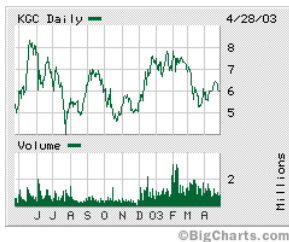
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- **More on gold:** Heads almost always turn at gold conferences, and this one was no different. There was **David S. Hunt**, of the Dallas Hunt family, telling investors about his passion for collecting coins since the age of 3, mostly nickels and pennies. He's come a long way since then. David Hunt and his partners have put together **Benchmark Ventures LP**, which has an inventory of about \$10 million to \$12 million of rare coins. The partnership, which deals extreme rarities such as the United States Territorial 1854 Gold Twenty Dollar Kellogg & Co. Gem Specimen, got its start in 2002 and is now one of the largest dealers of rare coins in the United States. Rare gold coins, as Hunt and his partner, Christian Briggs, pointed out, rose tenfold in 1980, when the price of gold was going to \$850 from \$550. "A strong bull market (in bullion) will be most substantially felt in rare gold," said Briggs, who acts as Benchmark's president. The partnership is based in Southern California, with its Web site at www.bvcoins.com.

- The real head-turner was a presentation by **James Turk**, whose intensive research at [Freemarket Gold & Money Report](#) utilizes money supply, national debt levels, gold reserves and currency indicators to forecast gold prices. Turk recently found himself, much like a **Sherlock Holmes** on the trail of a thief, in London's Westminster Reference Library, poring through stacks of data "that have not seen the light of day in years." His search was for independent confirmation of the amount of gold that has been dishoarded by central banks since 1960. Turk believes, and provides statistics, that indicate some 15,000 tons of the metal are



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“mobilized,” or out there in the lending market somewhere. That figure is the same as the one assessed by Reginald Howe at the [Gold Antitrust Action Committee](#). But this item is not about the effect of lent gold in the bullion market, and how such central bank practices easily could backfire and send the price of the metal soaring. It is about Turk’s outlook for gold and gold mining shares. I’ll let him do the talking: “Gold’s uptrend began in 1999,” says Turk, a longtime financier active in Canada, New York and the Middle East. “We have a six-year base under \$325. We still have five, maybe 10 years left in the gold rally. We have a neckline in the 88-90 level on the **XAU gold stock index** (from 1995 through late April 2003). We are still filling out the right shoulder, but if we break above 88 to 90 (the XAU currently is at 65 or so), we’re off to the races.” Just how high and when? Turk sees 140 on the XAU in the next 12 months. Not long ago (in January), Turk was calling for a massive price gain for the actual metal, and he has not changed his tune. “The best way to increase your purchasing power over the next five to 10 years is gold,” he says. Turk sees a gold price that, for reasons having to do with currencies, fiscal debt and bullion’s tortured relationship with the Dow Jones Industrial Average, going as high as \$8,000 an ounce in the next five years. You heard it: \$8,000. Turk uses gold grams, a unit that is part of his transaction business **GoldMoney.com**, to determine how cheap gold mining shares are relative to the gold price. At 6 gold grams, the XAU right now is a screaming buy, he says. His favorites are **Kinross Gold (KGC)**, **Agnico, Gold Fields (GFI)** and **Iamgold (IAG)**, which he calls “a cash cow and very leveraged to the gold price.” (*More on Iamgold in coming reports, after my recent meeting with CEO Joseph Conway.*)

- I asked **Paul van Eeden**, editor of Doug Casey’s International Speculator and a longtime handicapper of exploration stocks, just why shares of **Wolfden Resources (CA:YWO)**—the small Canadian company that is on the **Recommended List** and is busy working the rich Red Lake mining district—are under pressure. The shares are down about 12 percent in the past two weeks. Van Eeden tells me investors may not be satisfied with the company’s issuance of shares to fund operations. “What is the most important thing for an investor in these stocks? Structure, structure, structure,” he says. “They are diluting their capital structure, even though they have excellent projects.” Given the promising location of Wolfden’s exploration work in the Red Lake district, not far from Goldcorp’s spectacular mine, I am keeping Wolfden on the **Recommended List**. Van Eeden’s favorites, by the way, include Virginia Mines (CA:VIA) and Radius Explorations (CA:RDU).

- As discussed in previous issues, the challenge when small stocks are running, or about to run, is picking your sweet spots. I've mostly been playing it safe on the **Watch List** with conservative purchase targets. Several of the small-cap issues have risen sharply in the past two weeks, notably **Digital River** (DRIV), **America West Holdings** (AWA) and **Bankrate Inc.** (RATE). As stated here, these frisky companies, some of them future leaders in their emerging industries, continue to steam ahead in price, accompanied by much favorable corporate news and some of the lowest price/earnings-to-growth ratios seen in the past 12 years. (We managed to snag closed-end fund **Royce Micro-Cap Trust** (OTCM) onto the **Recommended List** at a price of \$8.) The possible additions to the Watch List, meanwhile—**TiVo** and **4Kids Entertainment** (KDE)—are also marching higher. TiVo shares have gained more than 20 percent in the past two weeks alone. So much for conservative price targets, but I'll stick with the concept of buying as cheap as I can as sensible insurance in a tricky stock market. On some of the issues that have gotten away from us, like Digital River, for example, I am eliminating price targets for purchase. Use your conservative judgment. Still, as of this issue, I am starting something on the Watch List called the "**speculative buy.**" That's the very small part of your portfolio that deserves to be treated like a hedge fund. The first one is **Euronet Worldwide** (EFFT), a cash transactions company that operates in Europe.
- My source on Euronet is **Paul Ensor**, a former SG Cowen strategist I met several years ago in London. Ensor now runs his own investor-relations firm in Europe. He goes into that class of people whose due diligence I regard as among the best I've seen in more than 20 years of financial reporting. Ensor rarely points to a specific stock, and when he does, it is with good reason. "I met the management here a couple of months back, and was impressed," he tells me from his London office. "They run ATM machines across Europe, especially in central Europe—Germany, Hungary, Poland. It is U.S.-listed and managed, but operations are focused on Budapest. The logic behind the business is simple: 60 percent of ATMs in the U.S. are run by third parties (not banks), while about 10 percent of them in Europe are. This is bound to change. The recent sale of UK ATMs helped finance the purchase of **Epay**, a U.K.-based payments software firm with which they have strong synergies. The company was losing money in 2002, but is close to breakeven point now. This year I expect them to become profitable on new contracts, and synergies from Epay, which is a profitable business. Shares are hovering now ahead of quarterly results, which will be released on Wednesday." Euronet shares on Nasdaq are selling for \$7.95 each, giving the company a market cap of \$210 million. The company has some coverage on



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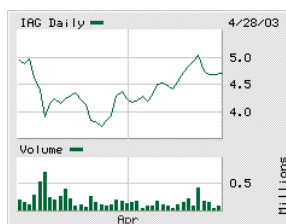
Wall Street, with A.G. Edwards calling for accelerating earnings momentum at the Kansas City-based company this year.

I'll be at the [Las Vegas Money Show](#) in mid-May. Thanks for spending time with [The Calandra Report](#).

Thom Calandra

The Watch List

Company	Symbol	Date	Price	Comment
Amarin	AMRN	4/29/03	\$2.80	Several nerve-disorder drugs promising. Lowering buy price to \$2.60.
Caterpillar	CAT	4/29/03	\$52.20	Capital equipment a capital idea. Buy below \$50 when Dow sinks.
OmniVision Technologies	OVTI	4/29/03	\$24.75	Leader in digital sensors. We missed this one at \$22. Raising target price to \$23.
Digital River	DRIV	4/29/03	\$17	E-commerce leader. We missed this one at \$11.75. No target.
Internet Holdrs	IIH	4/29/03	\$2.70	Tiny market cap: \$25 million. No target.
Bankrate Inc.	RATE	4/29/03	\$7	Profits accelerating, thinly traded. No target.
Rockland Small-Cap Growth Fund	RKGRX	4/29/03	\$11.51	For those who prefer to play small stocks in a mutual fund. No target.
America West Holdings	AWA	4/29/03	\$3.10	Airline stock choppy as oil price. No target.



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Thom Calandra's Recommended List

Company	Symbol	Date	Price	Comment
Cresud SA	CRESY	4/29/03	\$8.35	My favorite stock. Argentine rancher, a commodity play. Bought at \$7.

Wolfden Resources	CA:YWO	4/29/03	\$1.85 Canada	Red Lake miner bought at \$2 Canadian. The next Goldcorp? Under pressure but hold.
BAE Systems	BAESY; UK:BA	4/29/03	\$8	Bought at \$7.25. Defense company at huge rebound point.
Candente Resources	CA:DNT	4/29/03	\$0.80 Canada	Peru to put gold miner on map. Bought at 69 cents. CEO is down there right now, digging.
Crystallex	KRY	4/29/03	\$0.91	Rocky ride. Cheapest gold asset in the world. Bought at 95 cents. Political risk is worth owning.
Intraware	ITRA	4/29/03	\$1	CEO tells me large mutual fund's sale of 7 million shares is almost complete. Bought at \$1.
Euronet Worldwide	EEFT	4/29/03	\$7.95	Speculative buy. Cash transactions in Europe a great business.
Royce Micro Cap Trust	OTCM	4/29/03	\$8.35	Closed-end fund trades at discount. Great vehicle for tiny stocks. Bought at \$8.
Wheaton River	WHT; CA:WRM	4/29/03	\$0.83	A growth gold stock? Yes. Bought at 89 cents U.S.
FindWhat.com	FWHT	4/29/03	\$12.13	May be next great Internet marketer. Bought at \$10.75. Easily could double this year.
Australian dollar	AUD	4/29/03	\$0.6207	Little risk in holding this nation's currency. Doing very well.

Thom Calandra is founding editor of CBS MarketWatch. He has covered financial markets and companies in the U.S. and Europe for more than 20 years. Thom Calandra is a featured commentator on weekly television show "CBS MarketWatch Weekend," which airs on CBS stations across the United States. He is editor of the 2002 book, How America Made a Fortune and Lost Its Shirt. Thom Calandra and his family live in Marin County, California.

Thom Calandra owns bullion in the form of coins. Thom Calandra also owns shares of miners Almaden Minerals, Bitterroot Resources, Candente Resources, Rimfire Minerals and Radius Explorations. Thom also owns shares of publisher MarketWatch.com and small-cap stocks Intraware, an electronic software manager, and On2 Technologies, a video-compression company. He also owns the Australian dollar.

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