



SUPERSTOCK INVESTOR™

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J2 Communications — Half Closed at a 49.2% Gain...

***Compass Bancshares and Partial Intuit
Positions Exited with Double-Digit Profits...***

Master List Portfolio Stomps the Market Over Time...

BIG PICTURE

Oil is at record levels and could go higher in the wake of Katrina's damage to gulf rigs and pipelines. We're starting to see the subtle effects of oil's relentless climb in inflationary pressures and as a challenge to continuing corporate profits and economic growth. How much it will ultimately affect the rest of the economy remains to be seen.

Greenspan ominously warned that "asset bubbles" based on the current "elevated wealth-to-income ratio" could end badly, clearly referring to the housing market and certain segments of the financial markets. He went on to elaborate that the culprit was, in part, the willingness of investors to accept lower returns for risk.

He neglected to mention the greater culprit: The massive amounts of liquidity and "free" money the Fed flooded into the economy with years of negative real interest rates. At the time rates were deeply cut, following 9/11, the

infusion was the right thing to do — it may even have helped to fend off a recession — but it has also caused unintended consequences.

Greenspan also grumbled a warning about "developing protectionism regarding trade and our reluctance to place fiscal policy on a more sustained path..."

The dollar took a hit on the heels of a University of Michigan survey that showed consumer confidence has weakened more than expected. This is another factor that could affect trade.

Elsewhere in economic news there were hints of inflationary pressures, in part fueled by oil, and July durable goods orders sank 4.9% (but only down 3.2% excluding the volatile transportation components).

Although most of the economic surprises this month had a negative tilt, none are dramatic or point to impending doom. The housing market

See inside for more...

could certainly see slowing, especially in select overheated “bubble-istic” regions, and we may hit a short-term soft patch in economic growth as the likes of oil and dipping consumer confidence exert their influence, but nothing dire. It is, however, more important than ever to pick your stocks wisely in such an environment.

MASTER LIST PORTFOLIO UPDATE

It’s been a weak month in the markets, as sky-high oil, the prospects of higher interest rates, hints of inflation and a number of other economic factors nibbled away at the counterbalancing bullish forces.

Since the last issue, the *Superstock Investor* Master List Portfolio dipped 3.7%, while the S&P 500 lost a little less than 3% during the same period. At first glance there doesn’t seem to be anything noteworthy about that — until you consider the fact that the *Superstock Investor* portfolio will typically outperform the S&P by a wide margin in bullish or neutral periods.

For example, last month the Master List increased more than 7%, while the S&P gained about 2%. The month before that the S&P was totally flat, while your portfolio gained 3%.

Examined from a longer-term perspective: In the past three months, we’re up nearly 10%, while the S&P is up a measly half of 1%!

Bottom line: You can expect your portfolio to outperform the S&P under most circumstances, over any but the shortest time periods.

I’m continually scouring the market for new recommendations, but many of the prime suspects have run up to levels I’m not comfortable with. I have ongoing watch-lists of hundreds of potential picks, but they’re all either too expensive right now or are requiring me to wait for the right fundamental events or technical signals. Some potential picks are looking good, and I expect to pull the trigger on one or more new Master List recommendations soon, so stay tuned!

Alliance Gaming (AGI) expects to complete its delayed annual report soon and will provide an update before September 5.

Alliance’s shares have dipped on the delay, but I believe the odds are good it’s an innocent accounting matter and the shares will recover.

The company expects to earn between 30 cents and 50 cents a share on an adjusted basis in fiscal 2006, while the average estimate is 43 cents.

American Water (AWR) reported weak earnings early in August and the shares took a hit. However, they’ve been staging a strong recovery since, aided by a bullish analyst comments on the water utilities industry as a whole and American Water specifically.

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Subscriber comments and inquiries are welcome. Although we cannot always respond individually to subscriber letters, we welcome and read all correspondence and will respond to letters of general interest in the newsletter. All contents of this newsletter are derived from sources believed to be reliable, but accuracy cannot be guaranteed.

Data Date: August 26, 2005

I agree! Plus you're pocketing a generous 3% American Water dividend.

Barr Pharmaceuticals (BRL) was in the news of late as it awaited FDA approval for selling its politically charged "Plan B" morning-after birth control pill. The FDA chose to drag its feet and delay making a decision, again. Barr's shares have dipped some, but it's important to remember Plan B would only represent a tiny percentage of the company's revenues.

Caraco Pharmaceuticals (CPD) received an FDA approval for Zolpidem Tartrate, the generic version of Sanofi's insomnia drug, Ambien, which generated nearly \$2 billion in revenues last year!

Half of your **Intuit (INTU)** position stopped out at a 12.47% gain, as the shares dipped following an earnings report that failed to inspire investors and on Microsoft making competitor noises (a new program designed to compete with Intuit's QuickBooks). There was nothing wrong with the earnings and Microsoft is unlikely to muster a real threat — the sell-off doesn't appear justified.

Microsoft has already tried to beat Intuit on its owned turf six or seven times and it always ends up yelping off with its tail between its legs! Continue to hold your remaining shares.

K-Swiss (KSWS) shares relaxed their strong upward trend in response to a minor downgrade. An upbeat report listing K-Swiss as one of the 100 best mid-cap stocks hasn't revived the shares from their swoon, but there are good reasons to expect the shares' upward trend to continue.

Miva's (MIVA) ho-hum shares reacted in ho-hum fashion to the company's ho-hum earnings for its second quarter. It remains a waiting game for Miva to get its act together.

Midway Games (MWY) shares have taken a pause, I believe temporary, following their strong and steady run-up since I recommended the company back in May.

The primary culprit is most likely profit-taking — the shares had run up about 100% in 100 days. Another thing that may have inspired some selling, especially for those with big profits to pocket, is the issuance of a small number of shares to allow the conversion of some preferred shares.

I believe any selling based on the conversion is misguided. The conversion involves a small number of shares — about 1.2% of outstanding and shouldn't be considered a negative.

Redstone, through National Amusements, is still buying Midway shares on almost a daily basis and I expect continued strength in the shares, with occasional pauses. Continue to hold.

The pending **Providian (PVN)** acquisition by fellow *Superstock Investor* holding **Washington Mutual (WM)** has been approved by the office of thrift supervision and should proceed as planned. There's still an outside chance we could see a bump up in Providian's shares before the deal closes.

The remaining shares in both **Compass Bancshares (CBSS)** and **J2 Communications (JCOM)** stopped out (both were half positions after previously taking profits) at 10.35% and 49.21% respective total profits. You also stopped out half of your **Sovereign Bancorp (SOV)** and **Intuit (INTU)** positions at 12.7% and 4.7% total gains, respectively.

Please review the Master List Table for new stop levels and other changes.

DIVIDENDS

You should have received or will shortly be receiving your quarterly dividends for **American Water (AWR)**, **Oneok (OKE)**, **Washington Mutual (WM)** and **Sovereign Bancorp (SOV)**.

MASTER LIST MODEL PORTFOLIO FOR NEW SUBSCRIBERS

The Master List Model Portfolio is intended as a guideline for new subscribers who don't already own any of these positions, to help decide how to allocate their investing funds amongst the current Superstock holdings.

The Model Portfolio is based on a hypothetical \$25,000 account, with specific allocations suggested for the *Superstock Investor* Master List "buy" recommendations and a percentage specified for cash reserves.

The three major factors used in determining the allocations amounts:

- Positions may be listed "O" for overweight" or "U" for underweight (more or less than an equal weighting vs. normally weighted positions with no over or underweight ranking). These weightings may or may not match those listed in the Master List table, since the Master List weightings are provided for guidance in rebalancing existing positions as well as entering new positions. Often I'd prefer existing subscribers to continue holding a strong performing stock as an overweight (while protecting their gains with stops), but I may not want new subscribers to buy an oversized new position in the same.
- See the Master List "key" and the section on Master List allocations following the Master List table for more on this.
- The percentage of the total hypothetical \$25,000 being kept in cash. We don't want new subscribers to invest 100% of their investment account right away. Funds should be available to take advantage of new recommendations.

- Only positions currently rated "buy" or "buy on dips to" are allocated in the Model Portfolio. Positions currently rated "hold" are listed in the Master List and are being held by earlier subscribers.

More on "buy on dip" positions: Although the buy on dips positions are included in the model allocations, new subscribers should only enter these if the shares reach the trigger price detailed in the Master List "advice" column. If the triggers aren't met and you don't enter these positions, the net effect will be a higher cash allocation.

You'll notice the total hypothetical model portfolio value is more than \$25,000 even though the model is based on a hypothetical \$25,000 account. This is due to an adjustment to discount some of the "buy on dip" positions, which may or may not reach their target price to allow you to buy in. Depending on how many, if any, buy/dip positions fill, your active portfolio may have a value of more or less than \$25,000.

This is only a guideline model to help you decide how to allocate between positions and what percentage of your investment monies you may want to keep on the sidelines. You may wish to round up to the nearest 10 or 100 shares (especially if your broker charges extra for "odd-lot" orders), or otherwise adjust your positions, depending on your account size and personal preferences. For example, subscribers with a small account may wish to forgo entering positions with a high share price, in which they could only get a few shares.

**HYPOTHETICAL \$25,000 ACCOUNT ALLOCATIONS
FOR NEW SUBSCRIBERS**

Symbol	Name	8/26/05 Close	Weight	Adjusted Weight	Rounded Shares	Position Value
ACPW	American Power	\$3.53		11.00%	982	\$3,466.46
CPD	Caraco Pharma	\$8.57		11.00%	404	\$3,462.28
DDE	Dover Downs Gaming	\$13.15	O	15.00%	359	\$4,720.85
HTV	Hearst-Argyle TV	\$25.86	O	15.00%	183	\$4,732.38
MWY	Midway Games	\$15.25	O	15.00%	310	\$4,727.50
MIVA	MIVA	\$5.29		11.00%	655	\$3,464.95
NPSP	NPS Pharma	\$9.55		11.00%	363	\$3,466.65
WM	Washington Mutual	\$40.75		11.00%	85	\$3,463.75
						\$21,112.33

KEY FOR MASTER LIST OF RECOMMENDED STOCKS

Advice Status Key:

Buy	Buy only if you haven't bought shares yet; hold if you already own shares. "Buy on dips" to a certain price or "buy up to" levels may be specified (don't pay more).
Hold	Hold if you own the shares; do nothing if you do not own.
Sell	Sell if you own the shares; do nothing if you don't (do not sell short).
<	No change from previous advice.
Weight	O = Overweight, U = Underweight. We suggest you over- or underweight these positions. Weights are intended for guidance when rebalancing your portfolio, not when initially opening a position. More on this following the Master List.
Stops:	After opening a position, keep a "mental stop" or "stop limit" — to sell if the shares dip to the specified level or below (not all positions will have stops). Changes in stops from the previous month are shown in bold. "Stop 1" refers to 1/2 of your shares; "stop 2" refers to the remainder of your shares. If you have too few shares to split, consider using stop 2 as your position stop.

MASTER LIST OF RECOMMENDED STOCKS

Symbol	Buy Date	Cost Basis	7/22/05 Close	8/26/05 Close	*Prior Advice	Current Advice	Weight	Stop 1	Stop 2
ACPW	4/19/05	\$3.10	\$3.60	\$3.53	Buy to \$3.10	<			
AGI	12/1/02	\$17.29	\$14.89	\$11.66	HOLD	<			
AWR	12/1/98	\$18.99	\$31.07	\$29.78	BUY to \$22.60	HOLD	O	\$28.90	\$26.90
BCGI	12/6/04	\$9.20	\$2.15	\$1.89	HOLD	<	U		
BDY	12/6/04	\$18.50	\$10.99	\$10.67	HOLD	<	U		
BRL	10/6/04	\$40.00	\$46.12	\$45.22	HOLD	<	Half	\$44.60	
CPD	3/1/04	\$8.90	\$9.04	\$8.57	HOLD	Buy to \$8.00	Half	\$7.40	
DDE	7/29/04	\$9.60	\$14.39	\$13.15	BUY to \$11.50	<	O	\$10.40	
HTV	8/19/04	\$23.90	\$24.43	\$25.86	Buy to \$25.00	<	O	\$21.40	
INTU	2/25/05	\$41.65	\$48.36	\$44.05	BUY to \$42.00	HOLD	Half	\$43.40	
KOMG	7/6/04	\$12.80	\$32.00	\$37.61	HOLD	<	O	\$29.90	\$27.90
KSWs	9/10/04	\$20.00	\$32.38	\$30.68	HOLD	<	O	\$29.40	\$27.80
MANU	11/30/04	\$2.80	\$1.80	\$1.88	HOLD	<	U		
MEDQ	7/1/02	\$26.32	\$13.10	\$13.00	HOLD	<	U		
MIVA	1/15/05	\$15.60	\$6.55	\$5.29	HOLD	Buy to \$6.50			
MWY	5/13/05	\$8.31	\$12.78	\$15.25	HOLD	Buy to \$13.00	O		
NPSP	4/20/04	\$25.60	\$11.70	\$9.55	HOLD	Buy to \$11.00	U		
OKE	6/1/00	\$14.50	\$34.22	\$32.96	HOLD	<		\$27.90	\$26.40
PGIC	7/1/01	\$7.47	\$14.69	\$12.70	HOLD	<	Half	\$11.60	
PVN	5/5/04	\$12.75	\$19.04	\$18.18	HOLD	<		\$16.90	\$15.90
SDIX	11/1/01	\$8.50	\$3.77	\$3.96	HOLD	<	U		
SOV	1/18/05	\$22.35	\$24.38	\$23.60	Buy to \$22.85	HOLD	Half	\$20.40	
WEBX	1/5/05	\$21.50	\$28.73	\$25.46	BUY to \$21.50	HOLD		\$24.60	\$21.90
WM	7/7/04	\$38.75	\$43.54	\$40.75	BUY to \$39.00	<		\$36.90	

* If buy price is below current price read this as "buy on dips to"

This month's comments:

Remaining half of CBSS position stopped out 8/8 at 46.9 — a 10.35% profit

Half of INTU shares stopped out 8/10 at 46.9 at a 12.47% profit

Half of SOV shares stopped out 9/29 at 23.40, a 4.7%profit

Remaining half of JCOM stopped out 8/5 at 37.9 at a 49.21% profit

BRL is close to triggering stop # 2 (which would close out all shares)

**** Mental Stops:** I prefer you use mental stops versus actual stops you place with a broker, primarily to avoid an impolite market maker practice involving manipulation of the shares to “pick off” stop positions away from the market. I suggest setting up an alert system which notifies you when a stock reaches a certain level. Most online broker Web sites and many free finance sites (such as Yahoo finance) offer such alert services for free.

**** Stop-Limits:** If it is impractical for you to employ mental stops and react quickly with a trade, you may want to consider placing “stop limit” orders with your broker instead.

A stop limit is similar to the typical stop you can place with your broker, which is a market sell order triggered when a stock’s shares reach the specified price. A stop limit is triggered the same as a stop, but it then becomes a limit order at a specified price.

For our purposes a stop limit is better than a stop. 1) There’s less likelihood market makers will manipulate the shares to pick off your order, as they can do with a stop. 2) You won’t automatically sell if your shares gap down below your stop trigger level. In the unpleasant event of a sharp sell-off, it’s usually better for us to reassess the situation or wait for a partial rebound than just instantly sell at the market.

So, you have to specify both numbers when placing a stop limit; the stop trigger and the subsequent limit order price. Use the figure listed in the “stop” column of the Master List of Recommended Stocks as the initial stop trigger and a price 10 cents less than that for the limit order. For example, if a \$21.20 stop is listed in the table, your stop limit would be \$21.20/\$21.10.

Remember, as well as providing stops, we’ll protect you with emailed trading alerts or updates in case you need to take quick action or we need to adjust our strategy.

Master List Portfolio Allocations:

I advise allocating the majority of your **Superstock Investor** investment account in approximately equal dollar amounts across positions (either new recommendations or those listed as a “Buy”) in the Master List of Recommended Stocks. Exception: As mentioned in the Master List key, when a position is listed as “O” or “U” in the “Weight” column of the Master List table, I recommend over- or underweighting these positions by about 20%, compared to an equal allocation dollar amount. To weight a position, simply multiply an equal weight investment by 1.2 for O or divide by 1.2 for U.

For example; if you had five new **Superstock Investor** positions to invest in and you were devoting a total of \$5,000 to the investment, an equal weighting would suggest investing \$1,000 in each. To adjust for a position listed as overweight: $\$1,000 * 1.2 = \$1,200$. Underweight: $\$1,000 / 1.2 = \833 . After adjusting for weighting, the total investment amount may be more or less than the original \$5,000, so just round each position (not just the weighted ones) up or down some to get back to your target investment. It doesn’t have to be precise.

The Master List will typically contain 20 or more positions, with at least half of those typically rated “Buy” at any given time.

You may want to reallocate from time to time by reducing or adding shares in positions you find yourself over- or underweighted in, but I don’t advise doing this too frequently. You can drive yourself nuts trying to make sure every position is perfectly allocated, plus frequently reallocating positions will increase your transaction fees and cut into your net portfolio profits. A good rule of thumb is to rebalance every quarterly or so.

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We do not track the performance of the companies discussed in these promotions, or update them in the *Superstock Investor* issues, updates or web site. You may wish to visit the companies' web sites or contact their investor relations departments for company-specific information.

Best regards,



Jeff Manera
Editor
Superstock Investor

TELL US WHAT YOU THINK!

We're very interested in your feedback on the service, the web site and the new features we've implemented. And we're always interested in hearing your comments — good or bad — and suggestions for further improvements or additional features.

Although it's not always possible to respond to every email, I will personally read each one.

— *Jeff Manera*

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