

The Over-the-Counter Bulletin Board:

The most consistent profit patterns appear when a BB stock is leaving

“The consistent method of making money in the obscure bulletin board arena is during the brief transitional period for the select few companies that attain senior exchange listings.”

The Contrarian pursuit of consistent profits from the Bulletin Board

I am going to give you my investment-angle strategy for Bulletin Board-listed stocks that has provided a 5-year success rate of almost 75% with only nominal relationship to the specific company's fundamental merit or pace of corporate development. This angle is based on tracking a BB-listed company's Securities and Exchange Commission filings and selectively absorbing the content of the company's press releases and the rhetoric of its investor-relation's staff. Through this vigilance exercise, you will be able to determine the company's ability and estimated time frame to move its stock to a senior listing, such as the Nasdaq, New York Stock Exchange, or the American Stock Exchange. The astute buying window starts to open approximately one business quarter before the senior exchange listing is officially activated. The subsequent profit window opens the widest near the eve of this listing activation and this is the point at which Contrarians sell.

The example companies presented in this chapter are intended to support my unique Bulletin Board stock-investment strategy. Each of these companies have been subjects of my previous due-diligence agendas and have received coverage in *The Natural Contrarian* financial newsletter with my relative recommendations of their respective fundamental merits. For purposes specific to this chapter, we need not consider the long or near-term success of those previous recommendations nor the specific company's current corporate status. The value of these examples rests within the clear revelation of indicators to buy or to avoid based solely on each company's successful progression or vain attempt to move its stock up from the Bulletin Board. These indicators are universally consistent among BB-listed com-

panies aspiring for higher exchange-listing status. You will now have the advantageous ability to read these indicators before you consider your next aggressive investment in a stock symbol listed on the Over-the-Counter Bulletin Board.

The traditional and cliché commentary about the Bulletin Board

The prevalent trend among objective market commentators and purveyors of investment guidance is to routinely discourage the buying of any stock listed on the Over-the-Counter Bulletin Board (OTC-BB). For people in the business of presenting or selling their opinions on the publicly traded arena, this blanket advice is both safe and sound. It is safe because the overwhelming majority OTC-BB stocks never move beyond this illiquid and low-profile trading environment to reach a mainstream exchange and to attain a market capitalization beyond the micro-cap status. My reason for using “overwhelming majority” to describe the extremely high investment failure rate in BB-stocks is because there is no constant, reliable source for such statistics. The Bulletin Board does not offer them; the BB-listed companies do not acknowledge them, and individual investors, quite often, do not realize that what they own is a BB-stock. Rampant ambiguity aside, the professional giver of financial market opinions will embrace the wisdom of anti-Bulletin Board sentiment simply because it is historically proven to be correct nearly all the time.

This blanket Bulletin Board-avoidance advice can also be considered sound in view of the select statistics and standards that are publicly available. Historically, BB-listed companies had no formal filing or reporting obligations. These companies were not even required to provide current contact information and regardless of corporate conduct, there were no delisting procedures established. The only set requirement for a BB-listed company to continue trading was the involvement of at least one NASD-registered market maker. The National Association of Securities Dealers (NASD) has wisely maintained organizational separation from the OTC-BB, yet it does exercise regulatory control over the quotation activity and trading practices of its market makers. Through this underlying conduit, the NASD introduced policy changes intended to reduce the blatant fraud that many BB-listed companies launched onto the investing public from their positions of allowable nondisclosure.

As of January 1999, all companies listed on the OTC-BB were notified that they must fulfill scheduled reporting obligations to the Securities and Exchange Commission or face eventual removal from the NASD automat-

ic quotation system. Annual and quarterly reports, Forms 10-K, 10-Q, and financial activity and status disclosures, 20-F must be submitted to regulatory authorities and posted for public review. The NASD enforced this requirement through its control over its registered market makers, who would be compelled to shun any BB-listed company that maintained its nonreporting status. As their name defines, the market makers maintain the balance between the buyers and sellers of a stock and post the bid and ask prices on the NASD automatic quotation system throughout the trading day. A publicly traded company that loses its market-maker services virtually disappears from the investing public's view and quickly moves to the even greater obscurity of the pink sheets.

The OTC-BB inquisition started in earnest in June 1999. There were 6,667 BB-listed companies that came under regulatory review. During the following 12 months, thousands of companies were kicked off the Bulletin Board and the NASD automatic quotation system. The 40% attrition rate left only 3,943 companies with active BB-listings by the middle of Summer 2000. The hapless shareholders of the banished companies could no longer track daily trading patterns of their stocks. Investor requests for price quotes on these stocks have to be submitted by phone or in writing. The answers are provided after a disheartening paper-rustling sound as the most recent quote is retrieved from the archaic "Pink Sheets." Owned and operated by the National Quotation Bureau, the "Pink Sheets" have been published weekly in hardcopy format since before 1911. For almost 100 years, investors who have been willing to own these low profile stocks only receive price quotes once per week. There are approximately 4,800 entities that currently list their shares on the "Pink Sheets."

Contrarians need not fear the obscure Bulletin Board

I will not rebuke the wisdom of many financial market commentators who issue blanket avoidance advisories of all that trades on the Over-the-Counter Bulletin Board and below. By mere staunch avoidance of BB-listed stocks, you will be right in an overwhelming majority of circumstances. The historical record clearly states that there has never been a BB-listed company to become a titan of its industry while trading on the Bulletin Board. Only when a company moves up to a senior, mainstream exchange can it attain sufficient market exposure, liquidity, financial institution support, and capitalization to successfully execute its corporate agenda. The Bulletin Board is host to three general company categories: newly emerged growth companies that lack the financial requirements for a higher listing,

closely held entities that do not meet the float or shareholder requirements for a higher listing, and companies with failed development agendas destined for bankruptcy proceedings. Keep in mind that no legitimate company would list on the Bulletin Board if it had the option to trade on a senior exchange.

Nevertheless, we are gathered here today to attain profits in the stock market's obscure Bulletin Board arena. For all the aforementioned wisdom of avoidance and its justifiable reputation as the publicly traded leper colony, the Bulletin Board does offer a unique opportunity for promising concepts to raise the initial capital to launch a development pursuit. Therein exists a constant BB scenario in which we *can attain* profits most of the time. Forget about the old, veteran BB-listed companies or the closely held BB-symbols that will never evolve from this pre-Neolithic trading venue. And do not consider the former BB-listed stocks that have been forced to limp down to the Pink Sheets to die in even darker anonymity. We are going to narrow our focus on the newly listed BB-companies during their initial attempt to move up to a senior stock exchange. This is our time frame window to profitably exploit the market system regardless of whether the specific company successfully develops in the future.

The brief shelf-life-strategy for Bulletin Board newborns

The live-or-die clock starts ticking for Bulletin Board-listed companies upon the first day of trading. Within 18 months of this day, the companies with genuine progressive merit should have already moved up to a senior exchange listing. Beyond 18 months, a BB-listed company should be considered as languishing and at heightened risk of losing its future financing support and alienating its shareholders. I do not recommend any company that has been BB-listed for more than 36 months. This stage marks the increase of the fundamental deterioration pace in the majority of BB veteran companies.

The question of whether a BB-listed company will successfully move to a senior exchange in a timely fashion—and therefore qualify for our niche BB-stock investment criteria—can usually be answered within the first 12 months of trading. The first-year signals are distinct and come in the form of development milestones that can be clearly followed by informed individual investors. I am going to provide you with the initial 12-month progress of two companies that I covered extensively in *The Natural Contrarian*. One company surpassed the crucial first-year milestones and attained senior-listing status to the substantial benefit of its shareholders.

The other company failed to achieve this transition and continues to languish on the Bulletin Board to the substantial demise of its shareholders' equity values. The benefit in my presentation of these two real-market examples is that you will be able to locate the strong indicators that correctly forecast the respective company's success or failure. These indicators can be used to determine the correct stock and time frame in which to buy when you implement my Bulletin Board strategy in the future. I am going to present a recap of my previous high-risk/reward recommendations on Pennaco Energy and Wattage Monitor.

Pennaco Energy (PN Amex)

First-year success based on fundamental accomplishment

When I initially recommended this company on 2 July 1998, it was listed on the OTC Bulletin Board under the symbol PNEG. Pennaco was going to introduce the untapped Powder River Basin to the natural gas market. After my initial buy recommendation at \$4, Pennaco's trading volume steadily increased and its share price had moved up 65% within 15 trading days. Subsequent profit taking and unseasonably weak natural gas prices took a heavy toll on PNEG during the following weeks. By October 1998, the share price had dropped to \$2.50 and the misperception of pending doom temporarily prevailed.

See Figure 2.1

I issued my recommendation to accumulate Pennaco shares in earnest. I knew that Pennaco's developing portfolio of lance-sands natural gas wells would be drilled much quicker and more economically than conventional gas wells. Therefore the company would be posting amazing growth numbers for its production and proven gas reserves during the next 36 months. I was also aware that the widespread rumors of Pennaco's inability to overcome its de-watering challenges in the Powder River Basin were false. Pennaco's management was making sound administrative decisions, well beyond its progress in the gas field, that greatly increased my confidence in the company's long-term investment merit.

Pennaco Energy was also able to assemble effective investor relations and corporate communications teams. Traditionally, it is the failure to deploy such teams that prevents first-year publicly traded companies from elevating their images beyond the obscure corners of the market place. During the height of Pennaco's share price deterioration in the fourth quarter of 1998, the company's ability to effectively communicate inspired substantial

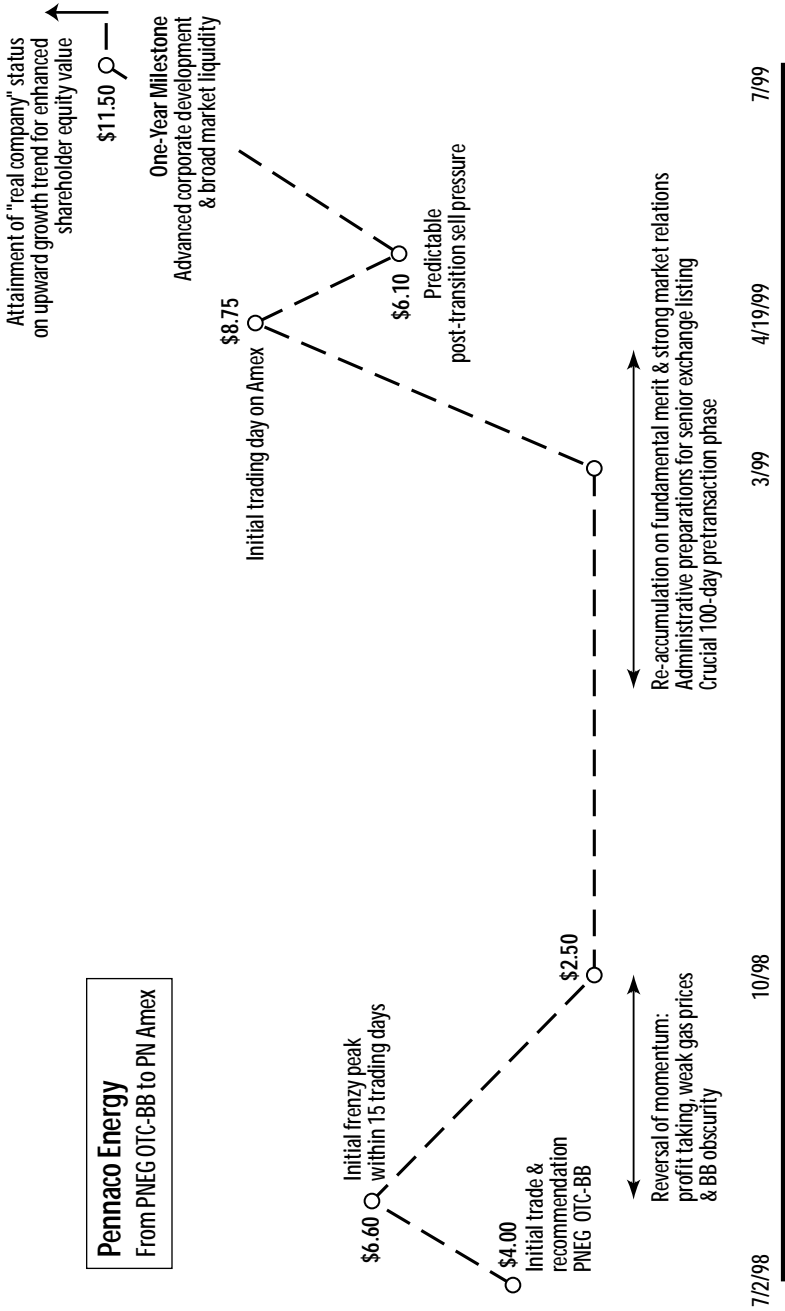


Figure 2-1

loyalty among its shareholder base and attracted renewed buying interest. At this time, I also observed the company's steady progress toward attaining a listing on the American Stock Exchange (AMEX). Although the Pennaco share price demise of Q4/98 seemed ominous, a clear Contrarian mindset allowed us to see the advantageous accumulation window.

In April 1999, Pennaco successfully graduated from the Bulletin Board to symbol PN on the Amex within its first publicly traded year. The next, broader level of financial institutions could now purchase Pennaco stock. With each subsequent quarterly gas production and reserve report, the senior-exchange-listed Pennaco built upon its market following. When the one-year mark arrived in July 1999, there was ample liquidity to absorb the profit taking by PN private placement shareholders. Pennaco Energy has now become a profitable company that has provided its shareholders with substantial profits.

Wattage Monitor (WMON.OB OTC-BB)

First-year failure because of failure to communicate

In December 1998, I issued a very popular research report on the burgeoning profit potential among the traditionally sleepy utility stocks within a deregulating, \$300 billion utility industry. In February 1999, I issued my recommendation of a combination electricity marketer and Internet conduit called Wattage Monitor. The company was positioning itself to be the channel that connected electricity consumers with the most competitive electricity providers. As the progress of utility deregulation entered new states, Wattage Monitor planned to establish a presence. Its business model had already proven itself in Pennsylvania with impressive results.

See Figure 2.2

I issued my recommendation to buy WMON at the \$5 level. My report was soon widely circulated beyond my subscriber base and the share price ran above \$17. As mandated on the back page of each issue, we protected profits into this upward frenzy. By 7 May 1999, WMON had returned to the \$7 level and I had to determine if the time was right to re-accumulate. I never issued this secondary recommendation because a chain of negative events began to surface that put the company's future investment merits and very existence into extreme question.

Within 70 days of its first public trade, Wattage Monitor went into a self-induced and complete quiet period. There was no pending acquisition, merger, product launch, or attainment of a higher listing status. Yet, the com-

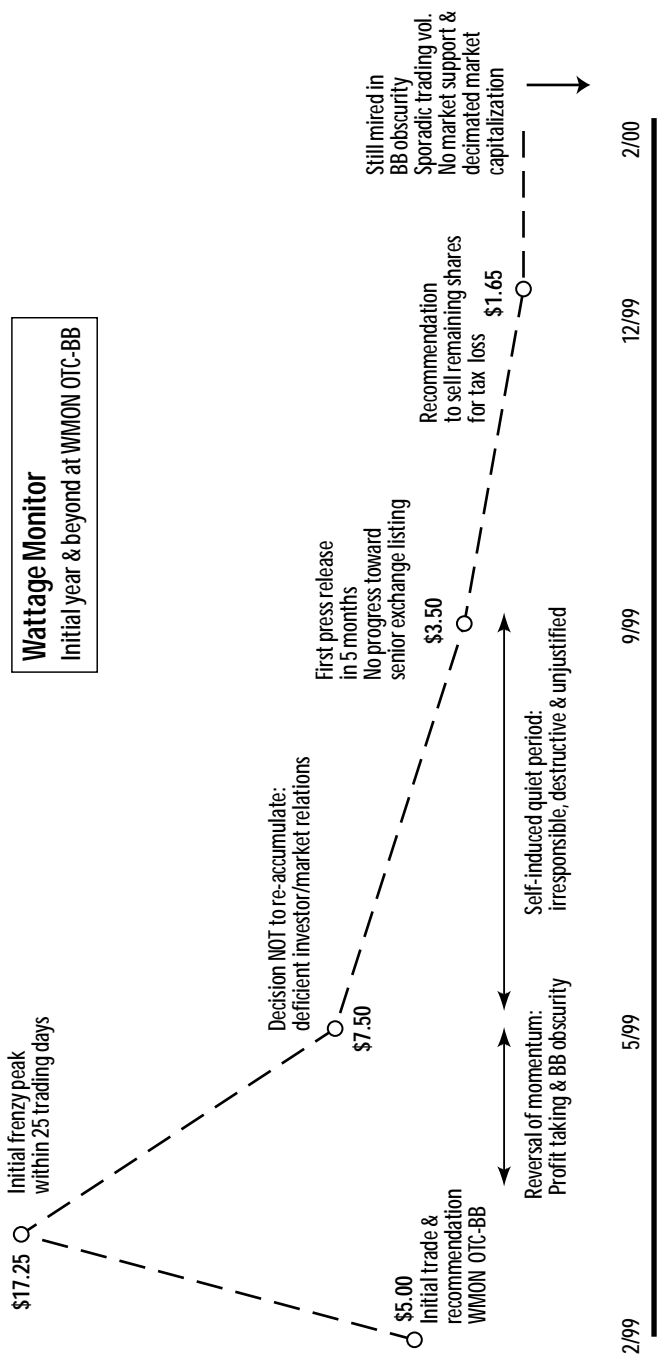


Figure 2-2

pany refused to communicate with its shareholders or with the general investing public. No explanations were offered and calls to the investor relations' line were met with suspicious ambiguity. The company maintained this quiet period for approximately five months. Wattage Monitor had soundly alienated its own shareholders and extinguished its marketplace following. The board of directors maintained their inept management selections. On 23 December 1999, the Bulletin Board placed an "E" on the company's WMON trading symbol for administrative discrepancies. Regardless of management's claims that a mistake had been made, the company had already established its own future failure. I issued the recommendation to sell all remaining shares for the tax loss.

After more than 20 months of publicly traded life, Wattage Monitor is still mired on the Bulletin Board and has completely alienated its shareholders, its private placement participants, and its support in the stock market community.

Warning signs of extended Bulletin Board status

To retrieve quotes of Bulletin Board-listed stocks, investors must now add .OB to the stock symbol on most major financial information web sites such as Yahoo!Finance. I view this as a sound public service because it reminds investors of the speculative arena in which they are considering to place their capital. I acknowledge that a select few companies have started on the Bulletin Board and then have proceeded to become profitable stock market success stories. But I have yet to see a publicly traded company become a titan of its chosen industry while holding BB status. The overwhelming majority of BB-listed companies will appear, fluctuate, and vanish, or become dormant shells within three years. My experience has demonstrated that BB-listed companies that move on to broader corporate development are able to qualify for a senior exchange listing within their first publicly traded year.

The astute timing for your next Bulletin Board-stock BUY

At this point in our BB-stock briefing, keep in mind that the only BB-listed stocks that we will consider for investment are those that appear qualified and destined for higher listing status to the Amex, Nasdaq, or even the NYSE. Keep in mind that we want to time our selected BB-stock buy around the 100-day mark before the stock begins to trade on a senior exchange. This time mark often reflects share-price weakness, but there is pending activity that will bring renewed buying interest in the stock as the compa-

ny enters the final qualification phase for its higher listing status. But first, we must examine the initial 90 days of trading for a BB-listed stock.

Because of the inconsistent trading volume across the OTC-BB environment, the stock of a newly listed company can be launched into upward price frenzy after a small infusion of image-enhancing exposure. Whatever the method implemented to attract concentrated buying to this new BB-stock, the surge of inordinate buying strength will undoubtedly push the share price well beyond the level even remotely justified by the company's current fundamental merit. The short-term traders will take the advantage to flip their shares into the temporary burst of buying interest. The new company cannot maintain an adequate market following to absorb the subsequent and reactive selling pressure. The long-term shareholders are soon alienated by this rapid share-price demise and dump their stock for a loss, never to consider the company's merits again.

After the initial upward/downward share-price frenzy, the newly listed and recently weathered BB-company can begin the administrative process of determining its future fate as a publicly traded investment vehicle. If the company was merely a hollow shell brought public only for fund raising purposes without a serious corporate objective, it will stand idle and allow its stock to dwindle into an inactive shell status or descend into the Pink Sheets. I have initiated a mandatory waiting period at the Natural Contrarian of at least 90 days before commencing a due-diligence file on any new BB-listed company. This affords us the analytical clarity beyond the volatility of the initial frenzy and the advantage of checking the company's administrative resolve to eventually elevate its shareholders to a higher listing status.

Although virtually every BB-listed company will proclaim their intent to elevate to the broader markets, the accessible public records will clearly indicate the select few companies that are implementing the appropriate measures. The public record also reveals the standing requirements for this elevated status. Companies can be identified as contenders or pretenders. As we time our BB-stock buy near the 100-day mark before its ascension to a senior exchange, keep in mind that this timing is not an exact science. The Amex, the Nasdaq, and the NYSE do not publicly reveal the pending-approval status of prospective companies. Even if a specific company announces its anticipation of a higher listing activation, senior stock exchanges routinely delay a listing activation at the eleventh hour until the following business quarter. It is the company's SEC filings on the EDGAR screen that provide the pertinent data to support our buy timing.

EDGAR is the Electronic Data Gathering And Retrieval system used by the Securities and Exchange Commission to transmit company filings to the investing public. At a certain point in these revealing filings, the company begins to take measures to strengthen the image and buying interest in its shares. The ability to anticipate these measures has traditionally worked to our profitable advantage.

The general strengthening phase during the public move up from the Bulletin Board as demonstrated by YouBet!

I chose to present the YouBet! (UBET Nasdaq) example from all my archived due-diligence files because of its extreme share-price movement before and after its transition from the obscure Bulletin Board up to the senior Nasdaq. This extremity is useful for demonstration purposes as I introduce you to this unique investment technique. Refer to Figure 2-3 as you proceed through my strategy presentation. For the record, 75% of my BB-to-senior exchange transition-stocks could have been used for this supporting demonstration. My use of the UBET model holds absolutely no reflection on the company's current degree of fundamental merit. Keep in mind that long-term fundamental merit is not a major contributing factor to our specific profit angle in this chapter. Our only concern is the exploitation of the advantageous buy windows and profitable sell windows that open up before the active attainment of higher listing status.

See Figure 2.3

YouBet! began its publicly traded life as YouBet International at the end of 1995 on the Over-the-Counter Bulletin Board. The company's corporate objective was to develop a virtual online venue from which gamblers could observe and bet on horse races throughout the United States. Yet, in this chapter, we are only concerned with company's administrative development and its attainment of the required attributes for a senior exchange listing. Our objective is to learn to detect the genuine move toward larger markets and to buy the stock before the anticipatory momentum of the move begins to drive the stock price.

A unique characteristic of this UBET case study is that I conducted my initial due-diligence exercise on this company in the second quarter of 1997. Although I found ample future potential in the company's business model, I declined to recommend the stock because it appeared to be years away from qualifying for the larger markets. It would still require a few more business quarters for YouBet's online betting venue to be functional and the Bulletin Board can be brutally ill-liquid should a company's devel-

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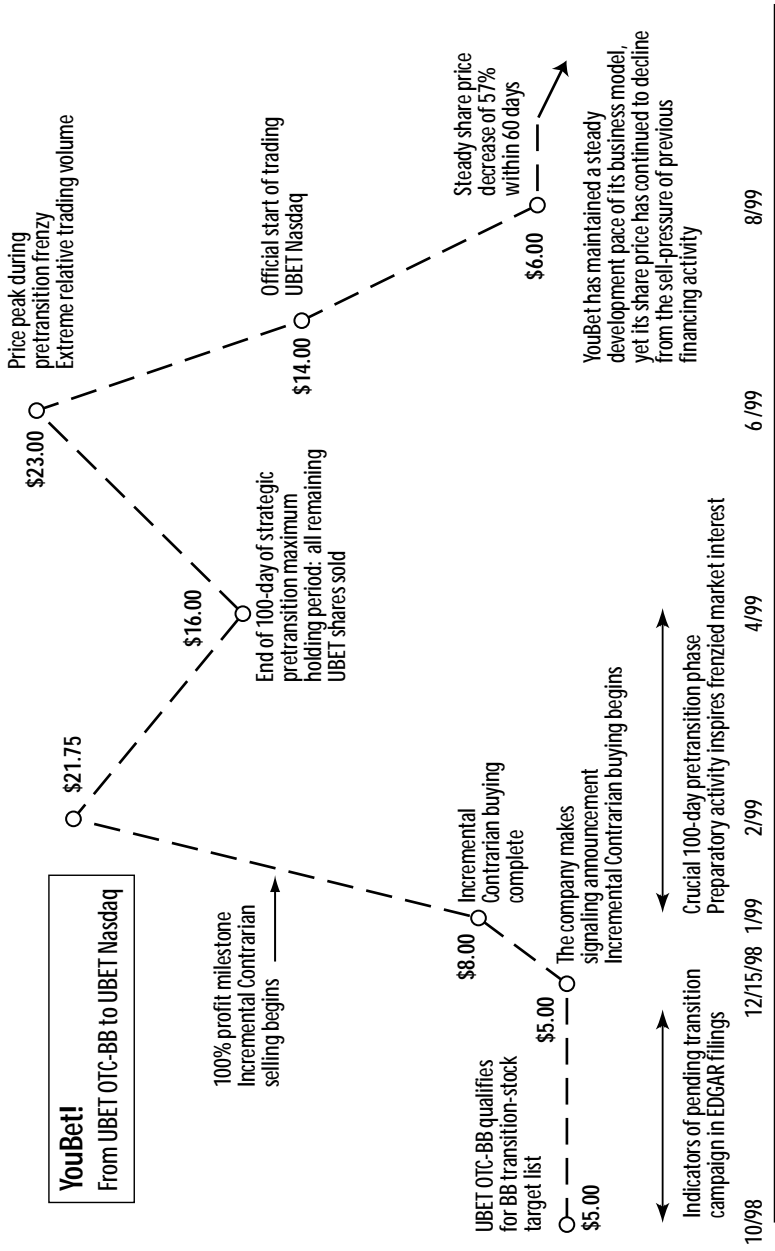


Figure 2-3

opment pace start to languish. I decided to just add UBET, of the OTC-BB, to my quarterly review list to monitor the company's progress.

It was 18 months later, at the start of the fourth calendar quarter of 1998, that UBET started to flash brightly on my due-diligence screen. The UBET share price had been plodding along with miniscule trading volume in a sideways straddle of the \$5 level for three years in OTC-BB obscurity. Although the company's corporate development agenda had made moderate progress, the company's administrative development had drastically moved forward. The EDGAR screen clearly demonstrated that YouBet had become a fully reporting company—back in the days when BB-listed companies were not even required to report their physical address. The company had also started to expand its investor relations department and its proprietary assets to enhance its marketplace profile. The YouBet balance sheet now reflected most of the attributes required by the senior exchanges. The company was in a legitimate position to make a run for higher listing status, thus I moved UBET to my target list of potential BB transition-stocks in October 1998.

It is standard Contrarian procedure to wait until a BB-listed company publicly announces the start of its application process to list on a senior exchange before we assume a substantial share position to exploit the pre-transition momentum. Upon this announcement hitting the newswires, the company's portfolio of qualifying attributes must be reviewed and a buy-or-pass decision must be made within several trading days. If the company possesses most of the qualifications for higher listing then its management will soon implement measures to bring steadily increasing buying interest to its share price. When a company moves from the OTC-BB to a senior exchange, it wants to enter with a relatively higher share price because its subsequent financings through additional share registrations will bring a higher amount of money into its treasury.

On 15 December 1998, YouBet publicly announced its application submission to list its stock on the Nasdaq Small Cap Market. The Contrarian transition-stock strategy mandated that we begin our initial accumulation of the sparsely traded UBET at the \$5 level. The company also mentioned that it could give no assurances regarding if or when its application would be approved. My research up to that moment indicated that YouBet already satisfied all but one of the listing requirements to be among the Nasdaq Small Caps and could probably attempt to list on the Nasdaq National Market. The company needed to add more cushion between its share price and the Nasdaq Small Cap minimum bid of \$4. That could easily be attained

through some strategic public relations. YouBet's biggest challenge during the review process was if its own assessment of net tangible assets matched the assessment of the NASD's application committee. Yet, our selection criteria of this aggressive investment strategy had been satisfied. The incremental buying of our pretransition UBET share positions was completed between \$5 and \$8 by end of December 1998.

YouBet commenced its pretransition momentum in drastic fashion in early January 1999. Keep in mind that the crucial if-and-when of a Nasdaq listing was still very uncertain. I had to depend on the filing indicators and the company's revealing activities to determine whether UBET should be held until the threshold of the transition or if the stock should be sold for the interim profits.

In January 1999, the image of YouBet had endured four years of Bulletin Board obscurity and was now qualified to be on the broader Nasdaq market. The company's management recognized the timely attraction of its probable, pending transition and rushed to exploit the advantages. YouBet could now present itself as a hot Internet company with a unique online business niche that had attained sufficient merit to become the next technology or Internet titan of the Nasdaq. The buying interest of a substantial number of individual investors was inspired by associative images of other previous Nasdaq stock profit miracles such as Amazon.com, eBay, and Yahoo. The YouBet press release of 20 January 1999, pertaining to the adjustment of its corporate name, contained these previous references and incited frenzied reaction throughout the marketplace. Mutual fund managers and mainstream brokerage firms that refused to buy the Bulletin Board version of UBET were now taking the opportunity to accumulate shares before the stock's opening trade on its higher exchange venue.

On the investment-banking side, YouBet's management also rushed forward to exploit the advantages of its pending stock-listing transition. With its share float becoming widely viewed as an upwardly mobile commodity, the company wisely raised money while its publicly traded image was on the rise. On 5 April 1999, the company announced its receipt of \$36.7 million in additional financing. Although no approval assurances were offered in the press release, it was the cash infusion that completed YouBet's qualification card for its pending Nasdaq listing. Shortly after this announcement, my Contrarian transition-stock strategy had reached the 100-day mark after our initial buy-point. Although I had started the incremental-selling process when UBET had shot above our 100% profit milestone by early February 1999, I reiterated that all remaining profits must be

taken off the table. UBET had peaked above \$20 during our maximum holding period and was trading at the \$16 level when that period expired.

The UBET stock price continued to move upward although the company's Nasdaq listing was still not approved and activated. Yet because my Contrarian transition-stock strategy is far from an exact science, I must adhere to my proven and established buy-sell time frames until relative market constants shift enough to justify adjustments. My audience veterans are very familiar with my opinion that 100%-plus profits within a quick time frame should be taken and not taken for granted. The events that transpired between mid-April and mid-June 1999 demonstrate why I continue to recommend that profits in transition-stock positions should be taken at some point before that transition officially occurs.

The post-transition sell pressure that hit UBET (Nasdaq) was amply predicted beforehand

Now that we've absorbed the general market constant that explains the period of share-price strength before a BB-listed company starts to trade on a senior exchange, we must address the opposite market constant. An overwhelming amount of sell pressure should be expected to hit a former BB-listed stock shortly after it starts to actively trade on a senior exchange. The short sellers, who have been laying-in-wait, are the first to deliver selling pressure to the newly listed stock. The repercussions of the company's pre-transitional financing activity will bring the next rounds of sell pressure. Then, the backlash of the longer-term shareholders can maintain the selling pressure indefinitely.

While still trading on the Bulletin Board, the UBET share price peaked above \$23 in the second half of May 1999. After three more weeks of extremely high volume relative to its previous 4 years of publicly traded history, UBET officially began trading on the Nasdaq at the \$14 level on 15 June 1999. As Figure 2-3, UBET began losing its 5-month upward momentum just prior to the activation of its senior-exchange listing. This is a slight diversion from the share price demise trend that usually starts in the immediate post-transitional period.

The short-sellers descended on UBET (Nasdaq) as part of their standard mode of operation and most likely without considering the underlying company's fundamental position. Financial institutions that use short selling as a cornerstone of their portfolio management observe the pretransitional strength and financing activity related to stocks such as YouBet before they move up from the Bulletin Board. Yet these short-sellers are not able

to take full advantage of exaggerated BB-stock prices until they trade on a senior exchange. Although it does occur by covert methods, it is against US securities regulations to sell short BB-listed stocks. Short-sellers understand that most transitional stocks enter the senior exchange arena without the sufficient market following to absorb immediate selling pressure. Their simple strategy of selling short everything that moves up from the Bulletin Board will result in near-term profits most of the time.

The short-sellers began to drive down the UBET share price from \$15 to the \$6 level upon the first day of Nasdaq trading. I cannot find any evidence of major short-cover buying until late August 1999. It is quite possible that the short-sellers let their debit positions ride for a relatively long time because of YouBet's financing activity during the first few months of 1999. This activity brought large amounts of cash into the company treasury but also ensured that large blocks of new UBET stock would be hitting the market during the next 12 months.

YouBet's Securities and Exchange Commission filings within the first half of 1999 outline the exercise of stock purchase warrants and the registration of new shares to be sold in additional private-placement financing and public offerings. Its Form S-8 and Form S-3 filings dated during this time frame and posted on the EDGAR system clearly indicate the amount of new stock to be added to the publicly traded share float. When the company announced its filed application for a Nasdaq listing, there were 13,970,268 UBET shares issued and outstanding. In the time frame leading up to and just after its official Nasdaq listing, the company filed its intent to increase the number of its issued and outstanding shares by almost 40%. It was clearly evident that YouBet would have 19,414,809 shares issued and outstanding well before its first year of Nasdaq trading was complete. The daunting task of absorbing such a substantial influx of new shares gives short-sellers an incredible boost of confidence.

The Contrarian strategy template

For buying and selling your next Bulletin Board stock

The criteria and selection process for the BB-stock target list

My proven BB-stock strategy mandates that we only consider the BB-listed companies that are entering their upward transition period to a senior exchange listing. This initial mandate will enable you to eliminate almost 90% of the current Bulletin Board stocks in a single filtering pass. There are two basic responses to my due-diligence inquiries regarding a BB-listed

company's intent to move to a senior exchange. The first response suggests that the company is satisfied with its current listing status and staunchly proclaims that the Bulletin Board offers the unique, dynamic trading environment for this emerging company that is poised for explosive growth. The stock of all companies responding as such can be removed from your list of potential BB-transition targets.

See Figure 2-4

The second basic response will be encountered more often than the first. The majority of investor relations' personnel will convey the idea that their BB-listed company is actively pursuing higher listing status. The variance within this second basic response will materialize in the level of specific detail that is presented on this pursuit. The minimum amount of detail will be merely a sincere statement of intent to trade on a senior exchange, at some point in the future. I occasionally place such BB-listed companies on my long-term watch-list, but they are removed from my pending transition target list.

There must be a maximum amount of detail in the second basic response from a BB-listed company to maintain its status as a potential buy target selection. This maximum amount of detail must include a statement from the company's representative that the necessary disclosure filings and the application for listing to a senior exchange are currently being prepared. Occasionally, such forthright investor relations' personnel will offer a time frame in which this pending application will be formally submitted to a specific exchange. This point marks the final phase of building a sound Bulletin Board-stock target list.

It is important to keep in mind that the majority of the select few BB-listed companies that successfully make the transition to a senior exchange will make their broad market debuts on either the Nasdaq Small Cap Market or the American Stock Exchange. These two venues offer more flexible requirements for the upwardly mobile company to get its broad market start. Now that a BB-listed company has qualified for our continued consideration by its divulged maximum level of pending transition detail, an independent inventory of balance sheet attributes must be conducted to determine if this intent for a higher listing is realistic. Unless a BB-listed company possesses a majority of the minimum balance sheet qualifications to seek approval for a NasdaqSC or Amex listing, its suggestion that their listing application is pending should be taken as mere lip service. The following listing standards outline this necessary inventory of potential targets:

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Listing Standards	Nasdaq Small Cap	American Stock Exchange
Net tangible assets (NTA)	\$4 million or	\$4 million
Market Capitalization (MC)	\$50 million or	
Net Income (NI)	\$750,000	\$750,000
Public float	1 million shares	\$3 million market value
Market value of public float	\$5 million	Alternate: \$15 million
Market makers	3	N/A
Shareholders (round lot)	300	Alternate: 400 / 800
Operating History	1 year	Alternate: 3 years
Minimum Bid Price	\$4	\$3

Although the 1998 merger between the National Association of Securities Dealers and the American Stock Exchange formed the Nasdaq-Amex market group, the virtual electronic exchange and the brick-and-mortar exchange still maintain their respective listing standards. The overall differences are nominal but it should be noted that the Amex does not have a market-maker requirement because specialists trade its listed stocks on a fixed exchange floor. Therefore, an Amex-listing candidate must be sponsored by a member firm. Also, the Amex-listing standards have alternate options among its financial guidelines and distribution requirements.

As the remaining BB-listed companies on our potential target list are compared against the listing-standard table, the true contenders for upward listing transition start to emerge. Keep in mind that the listing standards do not have to be 100% satisfied for a company to formally submit its listing application. These standards serve as a general guideline to filter out the BB-listed companies that still exist well below the requirements for upward transition. The companies with pending applications must meet the aforementioned standards before approval is granted to activate their new senior listing.

The most reference value should be placed on net tangible assets, market capitalization, or net income. The tangible nature of these aspects makes them the most universally recognizable by the exchange and the marketplace. These aspects are also the most difficult to manipulate and incur the greatest penalty if they are misrepresented. The market makers or specialist requirement will not usually be satisfied until a BB-listed company has formally submitted its application to a senior exchange. Extreme caution must be exercised when considering the minimum bid share-price requirement. I have encountered frequent situations when a BB-listed company is

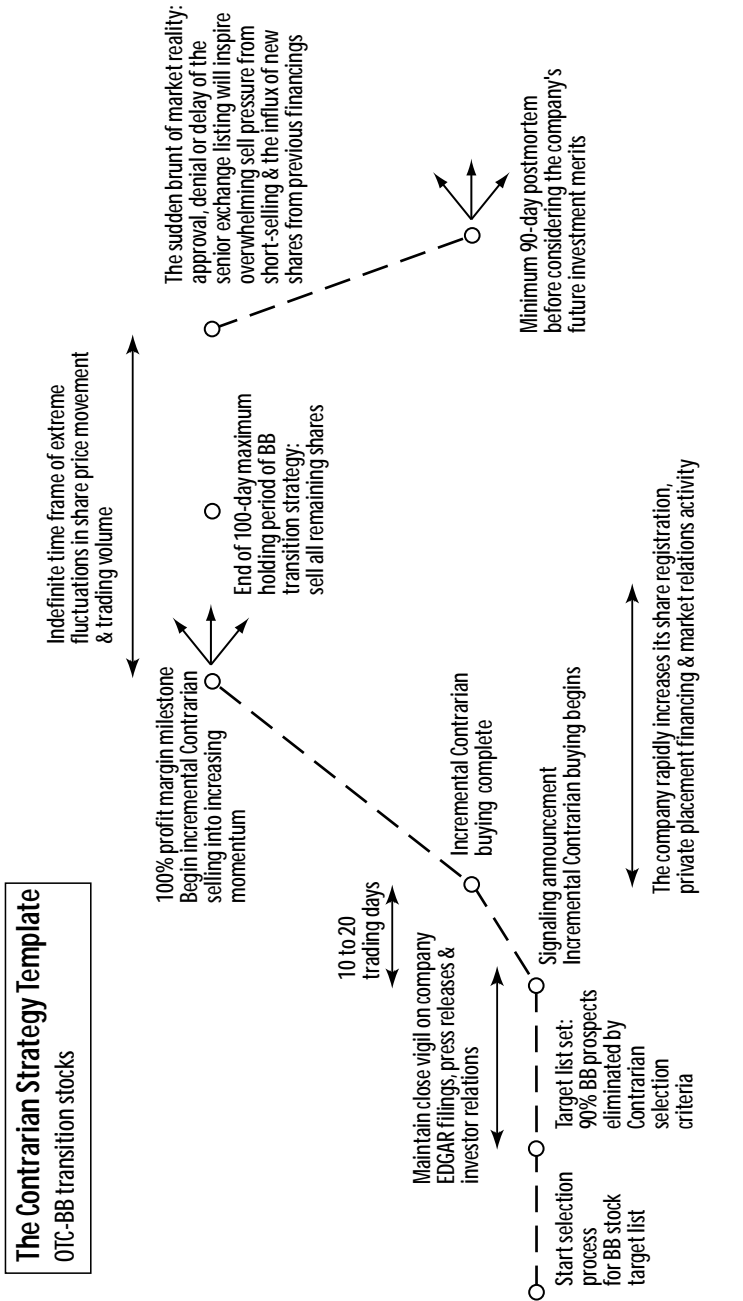


Figure 2-4

preparing to damage its shareholders' equity values by implementing a reverse stock split. Then, they defend this act of dilution by implying that this move will help attain the minimum share price required for higher listing. This misrepresentation is a major red flag that demands total avoidance of the company's stock. Please see Chapter** regarding the ramifications of both types of stock splits.

Pulling the buy trigger on the BB-transition stock target list

Each time I implement the aforementioned selection criteria on a group of potential Bulletin Board transition stocks, I am always left with less than 10% of the initial field of candidates. The BB-listed companies that survived the filtering process comprise the next target list. Waiting for the buy signal is primarily a matter of vigilance. Daily reviews of each company's EDGAR filings and press releases must be conducted. This phase has no standard duration and the underlying stock should continue to trade with the typical sporadic volume of its obscure environment. There is no reason to buy any stock on the target list until the related company releases the signaling public announcement.

During the vigilance phase, I remain completely indifferent to press releases or investor relations updates regarding a target company's fundamental development. This Contrarian strategy is not concerned in the BB-listed company's long-term success. The only EDGAR posting and press release that justifies action is the one that announces the company's official submission of a listing application to a senior exchange. This announcement marks the company's willingness to be meticulously scrutinized and to absorb the administrative and legal logistical costs to attain the higher listing status. This also marks the approach of the 100-day phase during which the company mobilizes all its resources to take advantage of its transitional attractiveness.

After the announcement of the submitted listing application, there is usually a window of 10 to 20 trading days before the pretransitional frenzy starts to drive the share price. This is not an exact science so I have traditionally recommended that the BB-listed target stock be purchased in three increments within four weeks of the signaling announcement. The first-third-share position is purchased the first market day after the announcement. A subsequent check of the company's EDGAR postings will usually reveal filings for additional share registrations and equity financings that were posted just before the application announcement. These types of postings can be expected to continue during the preceding few months

and will inspire the pending frenzy toward the company's stock. The other two-thirds of the transitional-stock position should be established before 20 trading days have elapsed because the 100-day profit window is about to open.

The moment of SELL for the BB-listed stock in transition

At this point, you have become an aggressive and an astute investor. You are aggressive because you now own a Bulletin Board-listed stock. You are astute because you selected this stock after filtering out over 90% the Bulletin Board listings and you made your buy before the only 100-day period in which select Bulletin Board stocks offer a consistent profit window. Our sole concern is determining the time to protect profits within the proceeding 100 days. Keep in mind that we are exploiting the reliable stock market constant of pretransition frenzy. Regardless of an applicant-company's listing qualifications, the specific senior exchange will approve or deny their listing activation on their own terms and schedule. With this specific Contrarian strategy and by the time this approval or denial is rendered, we will have taken our profits to the next opportunity.

The company's level of public relations activity increases tremendously from the start of its 100-day pretransition period. Its subsequent EDGAR postings and press releases will give progressive updates on additional share registrations and pending private-placement financings. Interspersed between these updates will be progress reports on the company's fundamental corporate development. Every press release during this 100-day period will usually end with a nondescript reference to the company's submitted application for senior exchange listing. Quite often, companies that are awaiting senior exchange-listing approval will modify their corporate names to better reflect their ostensibly elevating corporate development direction. This increased public relations activity is also taken directly to the next level of financial institutions and to a broader portion of the individual investing public. Mutual fund managers who were compelled by industry mandates to shun the old Bulletin Board-listed version of this company are now being offered an advanced accumulation opportunity of the new version on the threshold of upward transition. The overwhelming majority of individual investors who have also traditionally shunned BB-listed stocks are now being introduced to this *hot stock* concept that should soon be launched into the broader markets.

The onslaught of public relations activity within a concentrated time period is designed to inspire the necessary market support for the company's

share price in coordination with its financing activity. The company realizes that it must act quickly to take advantage of its stock's temporary image as an upwardly mobile commodity. The company must properly time the infusion of share-price strength to benefit the holders of restricted stock and purchase warrants or options from the company's previous private-placement financings. It is crucial to create a profit margin between the market share price and the placement price of the soon-to-be-free-trading private-financing stock and the exercise price of the purchase warrants or options within the right time frame. The company can ensure participation in its future financings and will add a substantial amount of cash to its treasury from the exercise of outstanding purchase warrants and options.

Properly timed share-price strength is also a crucial attribute to the company's offerings of additional private placement shares during the 100-day pretransition frenzy. The placement price of a new, restricted share offering is set in relation to the company's current free-trading market share price. A placement of 4 million restricted shares raises twice the capital when a higher free-trading market share price enables the placement price to be set at \$10 instead of \$5.

Our strategic bottom line, during this 100-day period of steady outflow of inspiring public relations and massive influx of new working capital, is to focus only on our point of taking profits. In this aggressive BB-transition strategy scenario, you can expect a double-to-triple profit window within 75% of these specific 100-day periods. Regardless if this profit window opens on day 1 or day 100, my strategy demands that you sell your position to take the profit margin. Based on your average purchase price within the 10 to 20 market days after the signaling announcement, start to sell increments of your transition-stock when profit window opens to the 100% mark. Your ultimate total return within the triple-digit range should be considered a major investment victory in such a concentrated time frame and volatile market environment. Do not be concerned or re-accumulate if the transition-stock price continues to move up after your sell point. The 100-day strength frenzy will soon end and the brunt of market reality is going to fall heavily on this company's market capitalization.

At some point after the company announces its formal submission for a senior exchange listing, that senior exchange will deny, delay, or approve the activation of that new listing. During our maximum 100-day holding period, the company must respond to the standard discrepancies upon which the senior exchange's approval board seeks clarification. This inquiry-response process normally takes longer than our maximum hold-

ing period; therefore we will have sold the position before a decision is rendered. A listing denial or delay issued by the exchange will bring devastating reactive sell pressure to this failed-transition stock after its rapid upward price move in anticipation of senior listing status. The aspect of market cap devastation is magnified because the sell pressure is hitting the stock while it is still trading within the sporadic volume environment of the obscure Bulletin Board.

An approval of a senior exchange listing will also bring substantial reactive sell pressure. Although the company was able to raise ample operating capital during its pretransition period through new share registrations and the exercise of share purchase warrants and options, it has also vastly expanded the amount of stock in its public float. It is nearly impossible for any company to absorb such a heavy influx of shares without a significant price decline. The longer-term benefits of the company's new liquid and mainstream trading environment enhances the reactive sell pressure in the near term. The stock can now be margined and can be shorted in earnest by those who practice the high-success-rate strategy of shorting all stocks immediately upon upward transition from the Bulletin Board.

After the smoke of massive sell pressure has cleared, a good number of these previous transition stocks can become sound fundamental buys at discounted share prices. Yet, you must still consider the amount of restricted-stock overhang that is waiting to become free-trading in the future three business quarters. Within the *Natural Contrarian* due-diligence program, I institute a minimum 90-day postmortem before I return to analyze the company's fundamental situation.

The Law of Contrarian investing on the Over-the-Counter Bulletin Board

To invest in accordance with the Contrarian strategy for Bulletin Board-transition stocks, you must adhere to the following mandates:

- ▶ Acknowledge and accept the aggressive and high risk/reward aspects of investing on the Over-the-Counter Bulletin Board.
- ▶ Consider only the BB-listed stocks that qualify as legitimate contenders for a senior exchange listing and disregard the veteran BB-listed stocks that have languished in obscurity for over three years.
- ▶ Conduct the filtering test within the Contrarian BB-strategy template that will eliminate over 90% of the hollow shells and publicly traded pipe dreams.
- ▶ Maintain vigilance over your finely filtered target list by monitoring

the respective companies' EDGAR filings and press releases.

▶ Buy your initial incremental share position upon a targeted company's signaling announcement that its application for a senior exchange listing has been formally submitted. Complete your share position accumulation within 10 to 20 days of your initial buy.

▶ Count off the days of our strategic 100-day maximum holding period while observing the company's frenzy-inducing activity through its subsequent EDGAR filings and press releases and while tracking the upward movement of its share price.

▶ Sell your first increment of stock as the share price moves above the 100%-profit mark.

▶ Take all your remaining profits off the table by selling the rest of your stock before the 101st day.

▶ Look forward to the next strategically qualified opportunity. Do not be lured back into your previous BB-transition profit vehicle by rhetoric-inspired hype or residual upward share price movement just before the brunt of market reality brings the sell pressure.

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