

Inside ALPHA Investment Club

Weekly Alert

Message sent on October 30, 2007 after
market close

Trades to be executed at tomorrow Wednesday's open

**WE ARE CLOSING THE
CBAK TRADE AND
STARTING A NEW
POSITION IN REFR**

Inside ALPHA Conservative model portfolio

- Cover all China BAK Battery Incorporated (CBAK) shares at the open
- Sell short 400 shares of Research Frontiers Incorporated (REFR) at the open, or the equivalent of 1/26th of today's closing account balance (rounding down)

Inside ALPHA Leveraged model portfolio

- Cover all China BAK Battery Incorporated (CBAK) shares at the open
- Sell short 400 shares of Research Frontiers Incorporated (REFR) at the open, or the equivalent of 1/13th of today's closing account balance (rounding down)

Weekly Commentary: A handful of stocks lift the markets, dozens of others don't report...

INTRODUCTION

As we're getting to the end of October, and about 83% into this trading year, the NASDAQ is up less than 400 points from where it traded at the end of last year. And you know that I don't see my job to be a market forecaster (or I'd be doing a really bad job at it), but so far this year more than half of the NASDAQ's progression has come from three stocks.

Up more than 110% over the last ten months, Apple Incorporated (AAPL) has contributed to more than one third of the NASDAQ's progress so far this year. Over the same period, Research In Motion Limited (RIMM) has almost tripled, contributing to more than one eighth of the NASDAQ's gains. Finally, with a year to date gain of "only" 47%, Google has given the tech index about 8% of its luster.

Last Tuesday, the NASDAQ Index was up 45 points. How many stocks lifted the venerable index? The answer is 47, out of more than 3,000 components. The rest of them basically balanced each other out.

IT'S 2000 ALL OVER AGAIN

Amazon has a price/earnings ratio of 139, Google's P/E is 56, Research in Motion's 81 and Apple's 53. What has really changed since March of the year 2000, I ask you?

I'm OK with it, I really am. I mean eventually what goes up must come down. So how come it doesn't go down? Possibly thanks to hedge funds spreading rumors, pushing the markets up artificially.

I have talked about the rumor of Warren Buffett taking a large stake in Bear Stearns in the past. The "news" was leaked by the Washington Post on September 27, and Bear Stearns closed up 8% on the day. Of course, there was zero truth in the rumor. In a totally unrelated matter, Bear Stearns sold \$1 billion in bonds the next day.

PLCE: THE PERFECT NASDAQ STOCK

Am I betting on the markets to go down? Not really. Why not? Because under George Bush Junior, everything is allowed. Take Children's Place Retail Stores Incorporated (PLCE); it's still listed on the NASDAQ Stock Market, despite the fact that it hasn't filed audited statements since June 6, 2006 for the period ended April 29, 2006.

Compared to the companies which have already reported their results as of September 30, 2007, Children's Place is "only" 17 months late. The shares are down about two thirds since this has begun, and the company's auditor, Deloitte and Touche LLP, has recently resigned.

But you know how it works among friends: the NASDAQ has given the kid's clothing retailer an extension, then another, then one more and so on. The latest deadline is next November fourteen, but who knows? The NASDAQ might decide not to be too tough and grant another extension. It's only been 17 months so far, after all.

SO IS DELL AND FORTY OTHER LISTED COMPANIES

Why target PLCE, you ask? You're right, this company is not the only one. In fact, Dell Incorporated is in the same situation, delinquent for more than a year, and about forty other listed businesses along with it.

So what's the problem? In Children's Place case, on August 13, 2004, 100,000 options were granted to Ezra Dabah, then CEO, but the grant was only filed on October 22, 2004, or about 68 days later than the allowed two-day deadline. Oops.

Some people might have argued that the grant was backdated, as it was made near the 52-week low and the PLCE shares had risen 57% since. But in a January 31, 2007 press release the company said that a board committee found "there was no conclusive evidence of intentional backdating of options or other misconduct in connection with the option grant process". Right.

OIL DENOMINATED IN A BASKET OF CURRENCIES?

As a Bloomberg columnist put it: "Perhaps the committee found evidence of intentional backdating or other misconduct - just not the conclusive kind. Or maybe it found conclusive evidence of backdating that somehow wasn't intentional. The company didn't say."

As for its business, Children's Place says third-quarter earnings will fall short of its August forecast. Same-store sales are down. And Walt Disney Company has accused Children's Place of contract breaches over its management of Disney's stores.

So, in this environment where the NASDAQ lets such rotten companies continue their listing, what might end up bringing the stock markets down? I don't know. Perhaps oil. Last Saturday, Venezuela's Energy Minister Rafael Ramirez said that the OPEC is likely to discuss creating a basket of currencies for oil pricing at its next summit, due to the steady decline of the dollar.

CONCLUSION

The U.S. Dollar Index's relative weightings are currently:

- 57.6% Euro
- 13.6% Yen
- 11.9% Pound Sterling
- 9.1% Canadian Dollar
- 4.2% Swedish Kroner and
- 3.6% Swiss Franc

So does that mean that, one year from now, when I want to tank some gasoline I'll have to bring my Swedish Kroners along? I don't think so. In fact, this is just some political talk from people who are fed up because their dollars are increasingly worth nothing.

In the end, what all this means is that it's becoming increasingly unsustainable to artificially pump the indexes up. Yes, you might lift three stocks to give the false impression of a bull market, you might allow dozens of companies to never file statements again, but it doesn't change the fundamentals. If I were "long only" and exposed to the dollar risk, I'd be afraid. Very afraid.

This week's research: After losing \$65 million in 42 years, REFR's price/sales hits 1,463

INTRODUCTION

On Wednesday, we'll take a 20% profit on China BAK in just four weeks, as it seems that the stock is on the rebound. Depending on whether that happens and, if it does, how high the bounce goes, we might re-enter the trade at a later point.

To take the empty spot, we'll turn to Research Frontiers (NASDAQ: REFR), an incredible company that has been able to survive for more than forty years, despite losing \$65 million so far. So what does a \$65 million investment buy you, 42 years after? Total sales of \$87,001 over the last six months, or \$174,002 of annualized turnover.

Many companies are valued at two times their annual sales, so is REFR's market capitalization about \$350'000? No, not quite. It's actually about \$233 million, or six hundred times higher than that. We'll explore what got us there, and why I believe that there is still a chance to see some downside in the coming months.

SMART GLASS: COOL!

Research Frontiers was founded in 1965 and went public in 1986. This company is a one-trick pony trying to commercialize so-called "Smart Glass" technology. One example: imagine that, in your home, your windows would dim automatically when the sun is shining, so as to block some of the light going through the window.

Yes, that's cool, I agree. And that's probably why REFR is currently worth a quarter billion rather than a few hundred thousand dollars. I'll give you something else that's cool: wearable computers. That's what Xybernaut used to do. I wrote about it in 2003, and now the outfit is bankrupt. Cool doesn't necessarily mean that there will be demand at current prices.

Nevertheless, Research Frontiers sees the following potential applications: architectural windows, skylights and interior partition walls; automobile windows, sunroofs, sun visors, rear-view mirrors, instrument panels and navigation systems; aircraft windows, hatches, cabin dividers, instrumentation, cockpit sun visors, cockpit displays and pilot helmet systems; eyewear for sunglasses, sports goggles, ski goggles, motorcycle helmets and space suits; computers, PDAs, beepers, cellular telephones, televisions, hand-held computer games, signage and projectors.

BUT NOT PROFITABLE

Despite all these possibilities, neither REFR nor any licensee has ever sold so-called Smart Glass. The company's only revenues are licensing fees for its technology, which allows other groups to test it. Usually, that's what they do, until they conclude that there's no market at current prices.

On July 8, 1986, in its IPO prospectus, you could read: "The Company and the Company's light valve technology are being evaluated by The Dow Chemical Company, Asahi Glass Co., Litton Systems Canada Ltd. and Polaroid Corporation to determine the feasibility of incorporation of light valves into products which may be produced by them."

Wow! Dow Chemical? Asahi Glass? Polaroid? Those are big, huge names! Research Frontiers must have made a fortune with the technology, right? Nope. It made no money, because Dow and the others concluded that there was no money to be made there.

ON THE MARKET IN 1991?

In the New York Times, REFR President Robert Saxe said, on March 8, 1989, that "Research Frontiers has successfully tested 'electrically controllable variable light transmission sunglasses.' We hope that non-prescription lenses will be on the market in two years." Eighteen years after, there's still no such lenses in sight.

On June 13, 1991, the company issued a press release saying that it announced "the development of a film form of its proprietary liquid suspension technology by which the transmission of light can be controlled electrically. 'We are hopeful that the film will be ready for commercial application next year,' Saxe concluded". Well, hope on, more than sixteen years later there's still zero business generated from it.

On June 13, 1994, Automotive News reported that Research Frontiers licensee Glaverbel had "not yet sold the Smart Glass-based self-dimming rear-view mirror system to a European car maker, although the company says it is close." How close is close enough? Have you heard about a car equipped with the technology lately? Me neither; and I'm not holding my breath.

THE VERY HONEST AND SMART MR MARCIAL

On September 25, 1995, Business Week's Gene Marcial started his coverage of REFR. If you don't know him yet, Mr Marcial is a real piece of work. In 1996, Business Week noticed unusual trading in stocks covered by Gene and reported it to the SEC. In 1988, 11 individuals, including 3 stockbrokers, were convicted of trading on advanced information from Mr Marcial's column.

Anyway, here's a quote from Gene's first article on Research Frontiers: "Saxe expects one of the Smart Glass licensees to market a product next year using the technology." Surely, there's nothing wrong repeating the dreams of an imaginative CEO, although a good journalist would also mention the high risks. Oh, by the way, so far no licensee marketing a product using the technology, 12 years later.

What's incredible is that, this summer, Marcial did it again, pumping REFR without mentioning how wrong he had been twelve year ago (predicting the company would be taken over by General Electric for \$25 per share). A real piece of work, I tell you. What a rag Business Week must be to allow such a poor soul to waste perfectly good ink in its magazine.

WAITING FOR GODOT

The February issue of the Business Journal states that "Saxe doesn't foresee a profit in 1997 but believes it is possible next year". So far, we're off about ten years from that prediction, but who cares, right?

A Research Frontiers press release stated, on April 24, 1997, that "Korea's largest flat glass company, Hankuk Glass Industries Inc., expects to demonstrate this year the commercial feasibility of a wide variety of products using Research Frontiers' SPD technology. Hankuk plans to commercialize a wide range of SPD products and to establish new production facilities next year". That would have been 1998, right?

On December 1997, Popular Mechanics' Tech Update said: "Expect to see the new Research Frontiers Smart Glass windows at dealer showrooms next year"; OK, I'm still waiting.

OOPS! I CAN'T SEE THROUGH THE WINDSHIELD...

Now why do you think that our cars aren't equipped yet with the "new" 42 year old technology? One of the reasons might be that, in case of power failure, the system defaults to the dark tint, which could cause a problem at night with both vehicle win-

dows and mirrors. What problems? All you would need to do is guess what's on the other side of the dark glass!

OK, so let's suppose that you want Smart Glass for your home, and you don't mind to be in the dark in case of power failure. How much would a 36 inch times 36 inch (91 x 91 centimetres) piece of glass cost? About \$1'789.08, according to one licensee. That puts the square meter at more than \$2,000 and the square foot around \$200.

Among this month's Research Frontiers news, we can see that a licensee named Iso-clima has featured its Cromalite brand of Smart Glass at Vitrum 2007 in Milano at the beginning of the month, and at the International Boat Show in Genoa the week after that. That's great! Some revenues at last!

BEEN THERE, DONE THAT

But wait! They already showed the same technology at a Milano trade show in 2005. How much business has that generated so far, two years after? Nada, zero, zilch, absolutely nothing.

That's not all: Toyota subsidiary Hino Motors has unveiled a concept motorcoach with REFR windows last week. Concept motorcoach? Does that mean that you can't buy it, because it's not being produced for real? Like Batman's cool car in the Batman movies?

Of course, while the company is losing money and making no sales, the chairman and the president's combined cash salaries are more than \$700,000 per year, more than four times the annualized revenues.

CONCLUSION

I'm saying "cash salaries", because they are also making money selling stock in the market. Like CEO Joseph Harary's sale of 24,231 shares between \$14.42 and \$15.03 per share.

Now we have the opportunity to sell at the same prices as the boss, sell short I mean. While there is unfortunately no limit to how high bad shares can go in the current markets, it looks like last week's high of \$17.40 might hold for a while.

On the other side, if, as I believe, the shares might take a breather now, they should lose more than 20% over a short period of time, hopefully less than two months. If that should happen, we'll probably pull the trigger and wait for the shares to rebound higher before initiating a new short position, if it ever happens.

Thanks for reading!

Warm regards,

Marc