

# The Strategic Global Investors Newsletter™

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## Overview

Reading the most recent information on economic trends, it seems that we are heading toward a major correction in the market. Many analysts and economists are convinced that we are in a low inflation environment with an increase in productivity. In June 1997 I wrote in this newsletter that we would have a substantial reduction in long-term interest rates. That is, in fact, exactly what has occurred. In October 1998, I wrote "*I feel that we are bottoming. Long-term interest rates could drop around 4.75% in the next two months. After that, I think interest rates will slowly increase.*" Shortly thereafter, the bellwether 30-year Treasury Bond went from a low of 4.78% to around 6.4% today. Over the past five years, the financial market turned into a frenzy of mega mergers and acquisitions. The logic given was to maximize profits and eliminate competition. Right now, we are headed toward even greater concentration of power into the hands of few big companies. This in turn will cause tremendous stress in the financial market. The correct economic policy is to deliver to the market true competition. Small and medium sized companies are the backbone of the U.S.'s successful record increase in stock prices, and the creation of million of jobs. IBM was the "Big Blue" of the blue chip stocks in the 70's and most of the 80's. In this decade, other small companies that became giants are the new blue chips. A long-term correct policy is to stop mega mergers such as World Com and MCI, Rohne Poulenc and Hoechst and AT&T and Media One. To reestablish favorable conditions to the financial market and protect investors from a major downturn, the government should write protective laws for small companies. On the horizon I think there is a period of inflation and stagnation. Stagnation will cause first the downturn in the stock market and, second, the

real estate market. Inflation will bring the need for monopolies to increase prices because of reduced sales. In addition, the U.S., European, and Japanese governments will dramatically increase liquidity into the system to prevent it from collapsing. *This scenario could develop between now and the next six months, depending on how severe the market correction is.* We will sell stocks and maintaining about 70% cash position going forward.

## The Stock Market

Institutional investors are invested almost 100% in the stock market. With the exception of balanced funds, bonds fund and money market funds, the rest is heavily invested. Anticipating the scenario described above, we should be very selective when making decisions to invest. Our model portfolio calls for between a 65% to 75% investment in money market funds which invest in either U.S. or one of the European Union treasury bonds, and 25% to 35% in various stocks. *We recommend the biomedical sector and the utility and energy sectors as the two areas of investment that could better weather a major market downturn.* In addition, if the market takes a major downturn, it will present the opportunity of a lifetime for smart investors. Frankly, I think that I timed the market and the selection of stocks very well this year. **About 90% of our recommended biomedical stocks increased between 30% to 700% in price from the beginning of this year.** Following is a review of some of our investment recommendations made throughout 1999.

**Abgenix (ABGX).** I made a buy recommendation in May 1999, when the stock was trading around \$ 15 <sup>3</sup>/<sub>4</sub>, and again in July when the stock traded at \$19. ABGX is trading

at around \$120. The company has increased the number of partnerships including Human Genome Science and Curagen. Moreover, the FTC granted the acquisition of 50% interests of JT America in the Xenomouse. Even so, I think that the stock is priced nicely. *I will buy ABGX if the market corrects. And not until then.*

**Cell Genesys (CEGE)**, still owns about 22% of Abegnix. The BOD withdrew from the merger with Genzyme. Because of this, the stock now trades at around \$13. We have recommended Cell Genesys since April 1998. This year, we strongly recommended CEGE when the stock dropped to around \$5. *We think that the stock is a buy. Our target price for end 2000 is around \$18.*

**ArQule (ARQL)**. The stock closed yesterday at a 52-week high of \$9.7/8. I have recommended ArQule since the end of 1998 when the stock traded at around \$7. On September 30, 1999, ARQL held cash and cash equivalents and marketable securities with a value of \$41 million. *I recommend ARQL at \$10 or lower. My target price for end 2000 is around \$14.*

**Aradigm (ARDM)**. This stock rebounded from its low of 6 5/8 in November. As of September 30, 1999, the Company had cash, cash equivalents and investments of approximately \$40.8 million. At \$10 at share, I still think ARDM is attractive for investors on a two-year investment plan. *Our target price for end 2001 is around \$18.*

**Connetics (CNCT)**. Connetics started its Phase II/III pivotal trial with ConXn® (recombinant human relaxin, H2) for the treatment of scleroderma, I estimate that at the end of this year, CNCT should have about 25 million in cash or equivalent. *The stock is trading around \$9 1/2. Buy it on pull back. My target price for end 2000 is around \$14.*

**Cortex (CORX.OB)**. This is an investment for long-term investors with a two to three year time frame. CORX is a neuroscience company focused on novel drug therapies for neurological and psychiatric disorders. The company is

pioneering a class of proprietary pharmaceuticals called Ampakines, which act to increase the strength of signals at connections between brain cells. The weakening or loss of these connections is thought to be responsible for memory difficulties from Alzheimer's disease and to contribute to cognitive dysfunction in schizophrenia. *I recommend buying this stock now at around \$0.75. My end 2001 target price for this stock is around \$2.25.*

**Genome Therapeutics (GENE)**. Good news for GENE. The company signed a genomics-based research collaboration to develop novel therapeutics for the prevention and treatment of osteoporosis with Wyeth-Ayerst Laboratories. In addition, the asthma pact with Schering-Plough has been renewed through 2001. I recommend GENE at around \$3. It closed today at around \$15 9/16. I would wait and see where the stock price goes in the next few weeks before committing. *In any event, if the price goes under \$12, I recommend strong buy of GENE.*

**Genelabs Technologies (GNLB)**. During the last two years, few investors took advantage of my recommendation to purchase GNLB at between \$1 7/8 and \$2 3/8. Here is the news: The company said that GL701, its investigational drug for systemic lupus erythematosus (SLE), demonstrated a statistically significant advantage over placebos. Genelabs noted that if approved, GL701 would be the first new drug in 40 years approved for people with SLE. Yes, the company is filing a NDA for the new lupus drug. The market is big. *The stock is trading around \$6. My target price for end 2000 is around \$10.*

**Medarex (MEDX)**. We bought MEDX at \$7. I think the stock is nicely priced at around \$32. On a market correction, we will consider this stock again.

**Myriad Genetics (MYGN)**. In November 1998, we suggested buying MYGN at round \$11. The company has collaboration agreements with Novartis, Bayer, Schering and Monsanto. Its stock is trading at around \$45. We will consider this stock only after a market correction.

**Questcor (QSC).** This is the new company created by the merger of RiboGene and Cypros. Questcor is a small, integrated acute care and critical care pharmaceutical company. The company is beginning a pivotal phase III clinical trial for Emitasol® for diabetic gastroparesis and nausea due to chemotherapy. The portfolio also contains approved or near term products: Ethamolol® for esophageal varices; Glofil(TM) for monitoring renal diseases; Neoflo(TM) for extended delivery of Neosporin(TM); Sildaflo(TM) for extended release of silver sulfadiazine for burn therapy; and Migrastat® for migraine headaches. Cordox(TM) is in phase III clinical trials for Sickle Cell Anemia. The company is seeking licensure of its manufacturing facility in Missouri. We estimate that the company has approximately two years of cash and cash equivalents. *The stock is trading around \$1 ¼. Our target price for end 2000 is around \$3.50.*

**SciClone Pharmaceuticals (SCLN).** SciClone develops and commercializes drugs for treating chronic and life-threatening diseases such as hepatitis B, hepatitis C, cancer, HIV/AIDS and cystic fibrosis. The Company currently has two drugs in clinical development: Zadaxin for hepatitis B, hepatitis C, cancer and immune system disorders; and CPX for cystic fibrosis. Zadaxin has been approved for sale in 16 countries outside the U.S. Sigma-Tau, an Italian pharmaceutical company, invested about \$3 million in SCLN. The company should be able to break even by the end of 2000, unless it increases R&D. We recommended SCLN at around \$1.7/8. It now trades at around \$5.50. Volume has increased dramatically. *Buy on pullback. Our price forecast for end 2000 is around \$9.*

**Supergen (SUPG).** The company just finalized a new agreement with Abbot Laboratories for a worldwide sales and marketing partnership for the cancer drug Rubitecan. Also, it has acquired an equity interest in Portland, Oregon-based AVI BioPharma, Inc. (AVI). The stock is trading around \$27. My target price for end 2000 is around \$39.

**Triangle Pharmaceuticals (VIRS).** The company has two product candidates in pivotal phase II/III trials: Coactinon, a non-nucleoside reverse transcriptase inhibitor and Coviracil (FTC), a reverse transcriptase inhibitor for the treatment of both HIV and HBV infection. Additional clinical trials have been requested by the FDA. *The stock is trading around \$13. For long-term investors, it is a buy. My target price for end of 2001 is around \$27.*

**Utah Medical (UM).** Over the past seven quarters, the company's EPS has grown at an average annual rate in excess of 20%. The stock is trading around \$6 1/8. *It is a buy under \$7. My target price for end 2000 is around \$9.*

**Valentis (VLTS).** The Company's core technology includes non-viral multiple gene delivery and gene expression systems (plasmid technology). Through its alliance with DSM Biologics and Quiagen N.V., Valentis' proprietary manufacturing technology is capable of producing biomaterials ranging from lab to commercial scale. We recommended Valentis at around \$4. The stock is trading at around \$9 5/8. *Any pullback around \$6.00 or less is a buy opportunity. This is a long-term investment. Our target price for end 2001 is around \$10.*

Here is a new company in which we are investing: **McKesson HBOC (MCK).** The company is a health care supplier and a management company. MCK also provides software solutions, and comprehensive services to the health care industry. In addition the company processes and markets pure drinking water. For the six months ending 9/30/99 revenues increased net 30% to \$17.75 billion. Income rose 36% to 129.4 million. Results reflect growth in the U.S. direct delivery business and decreased operating costs as a percentage of sales. On the negative side S&P downgraded MCK's senior debt. S&P believes that McKesson may have a future liability stemming from shareholder lawsuits following a steep drop in the stock price after its January 1999 acquisition of HBO. The stock high for the year was \$89 ¾. *Now is trading around \$22. Our target price for end 2000 is \$ 34.*

Our List		Strong Buy	Buy	Note
ABX	Barrick Gold		Under \$20	Buy the stock and sell covered calls
ABGX	Abgenix			Neutral
AMVC	Advance Machine Vision		Under \$1.3/8	
ARROW	Arrow Intl		Under \$25	
ARQL	ArQule	Under \$6	Under \$7.50	
CCR	Countrywide Home Loans		Under \$30	
CEGE	Cell Genexys		Under \$11	
CNCT	Connetics	Under \$4 ½	Under \$5 ½	
COR	Cor Therapeutics			Neutral
CORX.OB	Cortex Pharmaceuticals	Under \$0.70	Under \$0.90	
DSCO	Discovery Labs	Under \$2	Under \$3	
GENE	Genome Therapeutics	Under \$12	Under \$15	
GNLB	Genlabs Technologies		Under \$5	
GLB pr A	Glenborough Trust	Under \$16	Under \$17	We invest in preferred shares A
GLBN	Global Net Financial		Under \$20	
HR pr A	Healthcare Realty		Under \$18 ½	We invest in preferred shares A
ISIP	ISIS Pharmaceuticals		Under \$7	
MCDE	Microcide	Under \$6	Under \$7.50	
MEDX	Medarex			Neutral
MYGN	Myriad Genetics			Neutral
MOND	Robert Mondavi		Under \$29	
ORCL	Oracle			Neutral
PAG	Pacific Gulf Properties		Under \$20 ½	
PIXR	Pixar Animation Studios		Under \$34	
PP	Prentiss Properties		Under \$21	
QSC	Questcor	Under \$1.50	Under \$1.75	
RXSD	Rexall Sundown	Under \$10	Under \$12	
SCLN	SciClone Pharmaceuticals		Under \$6	
SUPG	Supergen		Under \$27	
SUS	Storage USA		Under \$28 ½	
TAR	Telefonica de Argentina	Under \$24	Under \$25 ½	
TEO	Telecom Argentina	Under \$24	Under \$25	
TMX	Telefonos de Mexico			Neutral
TSO	Tesoro Petroleum	Under \$11	Under \$13	
UM	Utah Medical	Under \$6	Under \$7	
VIRS	Triangle Pharmaceuticals		Under \$15	
VLTS	Valentis		Under \$6	

Indexes: DJI 11476.71 – NASDAQ 3972.11 - Russell 2000: 488.48 – Microcap1000: 1438.69

**We wish you Happy New Millennium**

*Dario A. Bianchi*

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