

# POWERHOUSE PROFITS

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## The Wildest Summer In Years

— *Luke Hodgens June 29, 2006*

It's finally here. The time of year when Americans flock to the beaches, the smell of barbeque drifts through the air and Wall Street players head to Long Island's eastern tip for some rest and relaxation.

Independence Day traditionally marks the beginning of the "slow" season for stocks. As traders take their summer vacations, and Americans pay more attention to their kids' little league games than to their portfolios, the market switches into hibernation mode until autumn. Both volume and volatility begin to dry up as the market flattens and meanders... at least this is what traditionally happens.

This summer, however, we're going to be looking at something quite different. Sure, vacations will still be taken, and baseball games will still be played, but Wall Street will be alive and awake, volatile and crazy. We're looking ahead to the wildest summer in recent years, and you can blame the new Fed Chief for the upcoming frenzy.

Ben Bernanke, who's already made a few "slips of the lip", has left the market scratching its proverbial head. On one hand, Bernanke preaches economic stability through continued GDP growth. Yet, on the other hand, he preaches price stability through interest rate adjustments.

Is he worried more about recession or inflation? Will he continue to raise rates to hold off consumer price increases, or will he halt rate increases to promote economic growth? This is the million dollar question.

With Bernanke having said rate adjustments are now dependant on incoming data, and with another Fed meeting coming in August, traders will have no choice but to remain on their toes this summer, closely monitoring each and every consumer and producer price number, jobs number, housing number and confidence number.

Although Fed meetings occur regularly in the summertime (a schedule of FOMC meetings is available at [www.federalreserve.gov](http://www.federalreserve.gov)), this year, data from July will heavily influence Fed's decision making for August... and August data will feed into the September meeting.

With the Fed now being dependant on short term data, traders cannot afford to get caught off guard and will have no choice but to play the market far more aggressively than usual (for this time of year). We can no longer assume

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## The Wildest Summer In Years

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a 25 basis point hike every time the Fed gathers... so there will be no cruise control this summer.

While the likelihood of big springtime volume continuing into the summertime is slim, we do

expect this summer to provide us with many more trades and more volatility than average. Until the market understands what Bernanke means when he speaks, we're going to see big swings in stocks and bonds... whether it's in the winter, spring, summer or fall.

So hold on tight, we're in for a wild ride.

## From WWII to WalMart

— **Tim Fields**

This remarkable technology goes virtually unnoticed by millions of Americans each day. Originally invented during World War II by the British Royal Air Force to distinguish friendly aircraft from the enemy, Radio Frequency Identification (RFID) has now become one of the leaders in the march into the future.

RFID can be best described as an automatic identification system that relies on storing and retrieving data remotely using a tiny electronic tag, appropriately dubbed a RFID tag, or RF transponder. The tags contain a microchip(s) and tiny antennas that enable them to respond to, or originate, a RF query. The tag itself, about as thin as a sheet of paper, has a wide array of uses that save lives, tracks livestock and monitors billions of dollars in products for retailers each year.

During the last World War, Britain was constantly bombarded by enemy warplanes, all while sending fleets of their own across the English Channel. Upon returning, it was vital that the English defensive knew the difference

between their planes, and those of the Nazi enemy. In fog, rain, at night, or during heavy bombardment, distinguishing friendly forces from the Nazi's became confusing and deadly. A system of identification outside of visible confirmation became top priority. Enter RFID... a tiny transponder installed in Allied planes that could confirm their identity by giving off a unique signal, without the once necessary line of sight.

Today, these tags are inserted or incorporated into goods such as razor blades, boxes of tissues, fishing lures and hundreds of other consumer products to cut costs and increase accuracy of product tracking during shipment, and inventory tracking on shelves. And just like back in WWII, this technology helps distinguish between "friendly" and "enemy"... known in today's retail world as genuine products or counterfeits.

This technology's ability to accurately identify the status of a product is saving companies millions each year. WalMart, for one, is a true believer in this once military technology.

Engineers from IBM, in conjunction with

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WalMart, developed an application named ultra-high-frequency, specifically geared towards the retail goods sector. But due to some financial difficulties at IBM, the program was scrapped.

Still seeing the importance of the technology, WalMart went ahead with the program without

IBM. In the late 1990's, the retail giant teamed up with razor manufacturer Gillette and supermarket chain Tesco to get RFID to the mainstream. Together, they tested this technology and implemented a product called a "smart shelf" that enabled real time inventory tracking of products- a huge leap in the RFID technology.

## The RFID Market

The RFID market is not booming as of yet, but will be in the near future. Costs are the biggest issue associated with its growth, but that will soon change. The bottom line here is what matters most in a business... making money and preventing loss. Having RFID implanted in products will greatly reduce costs associated with inventory control, give retailers real time sales reports on products and cut back on losses due to theft. If someone walks out of an electronics store with a \$2000 television, they'd better hope there's no RFID chip in that box, or the authorities could come knocking on their door.

Walmart has mandated that its 200 largest suppliers have RFID tags in shipping containers by January 1st of this year. Soon, all WalMart suppliers will have to fit these criteria... and down the line, each individual product unit will be RFID tagged. This technology will replace bar-codes.

Due to advances in the technology, and the need to further develop it, the price per RFID tag is expected to drop to as little as \$.03 per piece, down from the current price of around \$.30 per piece.

But WalMart is not alone in their endeavor to bring RFID into the main stream. Other companies and governments worldwide have

begun testing and implementing chips to enhance their systems, save money and track their assets. Companies and municipal agencies have begun embedding chips into ID cards that will make the common house key obsolete. A sensor would be in the wall or ceiling and when a RFID chip gets to within a given distance, the sensor will read the chip, verify credentials and unlock doors.

Perhaps even wilder, the chips implanted on products will have the ability to prompt a computer in your refrigerator to alert you when perishable goods like milk are about to expire, or when you'll need to reorder eggs and cheese.

Most Americans don't even know that they're already using some of this Star Trek like technology. Some everyday examples of this are the EZ-pass system (the unit that sits on the inside window allows a motorists to breeze right through a toll lane), the Mobil Speed Pass (the black wand on your key chain that enables you to gas up your car without having to go into the store to pay) and American Express' Express-pay. While the technology is still a little ways from being commonplace, RFID is slowly working its way into the American mainstream... making life easier, faster and some could argue, better.

## Enter I.D. Systems, a True Industry Leader

Microsoft Corp., has formed a strategic certified partnership with **I.D. Systems (NASDAQ:IDSY) \$16.50**, to lead the industry in the development of RFID technology.

ID Systems is a leading provider of advanced wireless solutions for tracking and managing assets. IDSY's patented radio frequency (RF)

technology software allows automated, intelligent, cost effective monitoring analysis of basically anything in real-time. By anything: toothpaste containers, water bottles, people, automobiles, vaccines, pharmaceuticals...etc.

IDSY, ranked as # 147 in the 2005 Deloitte

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## **Enter I.D. Systems, a True Industry Leader**

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Technology Fast 500 list, utilizes RF based and Internet based data management systems in its solutions. Their products do just about everything that a company looking at their bottom line wants and wishes for: reduces operating costs, increases security, improves safety, enhances service and, most importantly, RFID technology increases profits by assisting in inventory management.

Some of IDSY's solutions are as follows:

- 1) **Material handling:** Wireless fleet management for material handling of vehicles, focuses on the cost and safety issues associated with handling forklifts, tow tractors, and other material handling equipment.
- 2) **Airport Equipment:** I.D. Systems, Inc. has patented a driver tracking and control that prevents unauthorized use of aircraft ground support equipment.
- 3) **Rental Vehicle Fleet:** In a pilot system with Avis Rent-a-Car System Inc, in which the system automatically uploads mileage and fuel data from rental vehicles.
- 4) **Railcar Tracking:** The tracking and management system communicates data from an entire train for railcars to one satellite link, in comparison to the old school method which relies on satellite transmitters on every car.
- 5) **Vehicle Hardware:** This solution has a variety of user interface and mounting options; it has the ability to track the whereabouts and actions of employees and can limit their ability to go into areas where they are not supposed to be, increasing time efficiency and productivity.

IDSY is poised to explode once this technology really gets its legs. Right now IDSY has formed partnerships with big names such as Microsoft, Wal-Mart, Ford Motor Company, United States Postal Service, The Transportation Security

Administration (TSA), Boeing, Kimberly-Clark, Kraft Foods, Johnson & Johnson and Coors.

According to IDSY vice president of software solutions, Joey Pinzon, "Microsoft Partner status reflects our expertise in crafting innovative software solutions, as well as hardware systems, for RFID-based mobile asset management... In addition, as a Certified Microsoft Partner, we can pass along the full power of Microsoft's support for the SQL Server database platform to our customers. We are proud that Microsoft recognizes our database technology as an industry best practice."

Having Microsoft, the king of all software, and I.D. Systems, an RFID powerhouse, working together will do wonders for the ongoing improvements and technological leaps within the RFID arena. IDSY's wireless access, management systems and net equipment tracking coupled with MSFT's SQL server dbase engine has created a conglomeration of advanced technology that it will only get bigger and better.

Walmart entered an agreement with the company to deploy their wireless asset net vehicle management system at a Texas distribution center. This idea will act as a test program to evaluate the effectiveness of ID System's material vehicle products in the way of safety, productivity and vehicle operations.

Ford said that they've accelerated their company wide deployment of IDSY's Industrial Vehicle Electronic Control System (IVECS). This would allow for the implementation of IVECS for a portion of their material handling vehicles in 20 assembly and stamping plants. This plan will enable Ford to control costs in a hemorrhaging American auto industry.

The US Postal Service used IDSY's Wireless Net Asset Powered Industrial Vehicle Management System in an original contract with the company, and has now signed a new 3 year contract where 460 USPS facilities can utilize their RFID solution.

IDSY is quickly becoming a "giant" in the

RFID community and this is reflected in the company's financials and fundamentals.

In IDSY's recently announced quarter ending March 31, 2006, revenues increased by \$3.4 million or 110.7% to \$6.4 million; up from \$3.0 million a year earlier. This growth is just blowing away IDSY's competition. (Motorola, Symbol, Texas Industries). This increased revenue was due mostly to the fact that IDSY has partnered with the US Postal Service, and their newly penned 3 year contract.

We see this growth trend continuing well into the future- especially considering RFID technology is still in its toddler stage and will



undoubtedly become a staple in consumer products. After a recent pullback in price, the stock now looks to be a good buy for the short term, and a great buy for the long haul.

## Joining The Green Revolution

— *Eric Dickson*

The debate over global warming is, pardon the pun, heating up. Whether you agree with the theory or not, it's on the forefront of national interest and media coverage. Central to the issue is how to deal with our oil consumption, and how to create a cleaner environment by utilizing new methods to extract energy.

America, in all our greatness, has a deadly weakness... an Achilles heel which is known by every nation on the globe. It's unfortunate, but true. We're at the mercy of OPEC. Our reliance became all too apparent during the oil crisis of 1973, when the cartel announced they were cutting production and placing an embargo on oil shipments to Western countries, in particular, the United States. Since then, we've been locked in a war of attrition over the prices of crude oil.

Since that time, we've attempted to set

ourselves free (albeit at a snails pace) of their iron fist over supply and price manipulations, and search for alternatives to OPEC. In the process, we've discovered domestic oil supplies, created new technologies that will some day replace fossil fuels, cleaned up our environment and promoted the American economy.

Recently, our economy has been struggling to cope with the uncertainties over inflation and oil prices, and what affect they'll have on the abilities of Americans to spend.

Crude oil hit an all time high on April 21 reaching \$75.35 a barrel, and is currently hovering around \$70. Inflation is now ringing in at just over 3% annualized and the national average for a gallon of gasoline is \$2.89. With the summer upon us, we're fearful of yet another bad hurricane season tearing up Gulf oil facilities and driving gasoline prices even higher. And let us not forget that mad man in Iran.

## Is Ethanol the Solution to Our Problems... Or At Least a Quick Fix?

Ethanol is a clean-burning, renewable source of alcohol-based fuel that's produced through fermenting and distilling starch crops, such as corn and sugar cane that are converted into simple sugars. The process of creating ethanol is just like that of creating booze. In America, the

predominant source for ethanol comes from corn... and our Midwest farmers are loving it!

Ethanol production increases net farm income by \$4.5 billion. With advanced technology, one  
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## ***Is Ethanol the Solution to Our Problems...***

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bushel of corn can yield approximately 2.8 gallons of ethanol. According to the U.S. Department of Agriculture, ethanol production adds 25-50 cents to the value of a bushel of corn, or as much as \$5.5 billion over the entire corn crop. Ethanol production is the third largest use of U.S. corn, utilizing a record 1.43 billion bushels of corn in 2005.

Gasoline enriched with ethanol contains more oxygen (an oxygenate), so it burns cleaner and reduces tail pipe emissions of carbon monoxide (CO) and smog-forming volatile organic compounds (VOC) that are harmful to the environment. Ethanol also has higher octane, which helps your engine develop maximum horsepower.

Flexible Fuel Vehicles (FFV) can function on conventional gasoline, ethanol, or a combination of the two within the same tank. There are two types of ethanol used as fuel; E10 is a blend of 10% ethanol and 90% gasoline, and E85 is a blend of 85% ethanol and 15% gasoline. Ford motor company has been using ethanol since the inception of Henry Ford's Model T.

Until recently, the primary oxygenate used in gasoline has been methyl tert-butyl ether (MTBE). Back in 1999 some states started banning the use of MTBE in gasoline because traces of it were showing up in drinking water sources, presumably from leaking gasoline storage tanks. In 2000, the EPA recommended the phasing out of MTBE nationally, and turned to the ethanol industry as a safer, cleaner additive.

## **Here Comes Ethanol!**

Recently, President Bush announced that America was addicted to oil and that ethanol and other alternative fuels may be the solution. He declared "Ethanol will replace gasoline consumption. The ethanol industry is on the move, and America is better off for it."

President Bush backed up his statement by signing the Renewable Fuels Standard (RFS) of the Energy policy Act of 2005, which mandated that a minimum of 7.5 billion gallons of ethanol be purchased by gasoline refiners by 2012.

Not only does the RFS help wean us off foreign oil, but the implementation of ethanol as our new oxygenate will help create American jobs, increases market opportunities for farmers and encourages economic growth in capital investments. There are 97 ethanol plants in the United States producing close to 4 billion gallons a year, and that number is

growing. There's an additional 35 plants under construction!

Ethanol industry operations and spending for new construction added \$1.9 billion of tax revenue for the Federal government and \$1.6 billion for state and local governments. The combination of spending for annual plant operations and capital spending for new plants under construction added more than \$32.2 billion to gross output in the U.S. economy.

Right now in the U.S. there are over six hundred gas stations in 37 states where drivers can fill up on E85, and there are 19 states with ethanol refineries. In 2005, the ethanol industry supported the creation of more than 153,000 jobs in all sectors of the U. S economy. The U.S. carries the lowest ad valorem tariff of 2.5% of the product value.

<b>Year</b>	<b>Millions of Gallons</b>
<b>1980</b>	<b>175</b>
<b>1981</b>	<b>215</b>
<b>1982</b>	<b>350</b>
<b>1983</b>	<b>375</b>
<b>1984</b>	<b>430</b>
<b>1985</b>	<b>610</b>
<b>1986</b>	<b>710</b>
<b>1987</b>	<b>830</b>
<b>1988</b>	<b>845</b>
<b>1989</b>	<b>870</b>
<b>1990</b>	<b>900</b>
<b>1991</b>	<b>950</b>
<b>1992</b>	<b>1,100</b>
<b>1993</b>	<b>1,200</b>
<b>1994</b>	<b>1,350</b>
<b>1995</b>	<b>1,400</b>
<b>1996</b>	<b>1,100</b>
<b>1997</b>	<b>1,300</b>
<b>1998</b>	<b>1,400</b>
<b>1999</b>	<b>1,470</b>
<b>2000</b>	<b>1,630</b>
<b>2001</b>	<b>1,770</b>
<b>2002</b>	<b>2,130</b>
<b>2003</b>	<b>2,800</b>
<b>2004</b>	<b>3,400</b>
<b>2005</b>	<b>3,904</b>

## Look Who's Investing

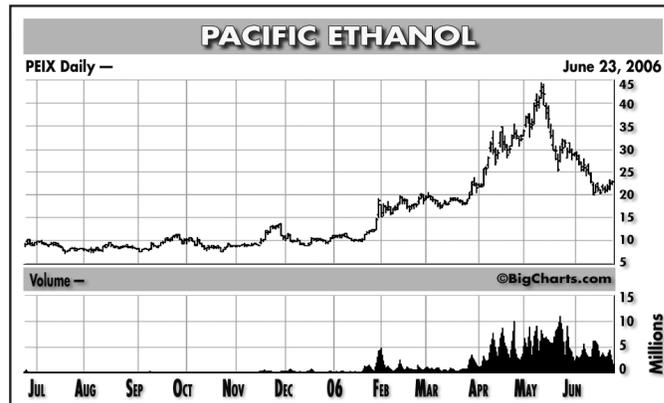
Companies like Exxon Mobile and Shell are devoting vast resources to ethanol and alternative fuels research and production. Another little company I'm sure your familiar with, Wal-Mart, is selling ethanol at 383 of their gas stations across the country.

Bill Gates has invested \$84 million into **Pacific Ethanol (NASDAQ:PEIX) \$21.00**, a small company with mind boggling potential. PEIX is based out of California and produces, develops, and markets alternative fuels, ethanol in particular. Their main rations are based in the Western United States, mostly California and areas of the Midwest.

PEIX has formed a strategic partnership with, and is using the expertise of, Kinergy Marketing. Kinergy has developed relationships throughout the Midwest; and through these contacts extended the reach of PEIX product. Kinergy's revenues since teaming up with Pacific Ethanol has jumped from \$15 million in 2002, to over \$100 million in 2005.

Right now PEIX stock is looking quite attractive after coming off a high on May 11 of \$44.50, the stock has pulled back to levels that are worth our attention. In one year alone the

shares have skyrocketed up to 825%, and have finally pulled back to a level worth investing at.



Pacific Ethanol and Front Range Energy announced the completion of a 40 million gallon production facility in Colorado resulting in added value to PEIX's shareholders in the form of additional revenues.

PEIX recently broke ground on a state of the art facility in Madra California, which is the largest ethanol processing facility on the West Coast. The facility is set to be fully operational by the fourth quarter. When the facility is up and running and their production increases, we should expect the price of the stock to follow suit.

## Alternative Alternatives

One of the largest ethanol companies in America is Archer Daniels Midland (NYSE: ADM). This stock was trading around \$20 a year ago and has moved strongly to the upside. Like PEIX, ADM recently pulled back from 52 week highs and looks attractive.

ADM announced last September that they are building 2 more facilities expanding their capacity by 500 million gallons. ADM will also market all ethanol produced by Millennium Ethanol from its upcoming 100 million gallon Marion, South Dakota facility.

A couple of ethanol companies recently went public and added to the overall boom in the ethanol industry.

Xethanol (AMEX: XNL) moved from the over the counter bulletin board recently and saw a spike in their share price going from \$9 to over \$11 in just a couple of days. Keep an eye on this company because their fundamentals look good and they are poised for continued success.

Another company that's fresh out of the starting gate is VeraSun Energy (NYSE:VSE). VeraSun is America's number two producer behind ADM. On the first day of trading, VSE shot up about 30% and has since moved lower to a more attractive price, but may still be a bit overvalued.

Right now the ethanol craze has sent stock prices higher for all of these companies in 2006.

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## Alternative Alternatives

(Continued from page 7)

The recent pullback in stock prices offers investors a cheaper entry for long term plays. With the U.S. finally pushing forward in our fight for oil independence, you can be sure that this underdeveloped industry is gaining momentum and is setting the stage for continued gains in the future. We'll add Pacific Ethanol (PEIX) to our model portfolio as a long term play.

Best of luck...



Luke Hodgins  
Editor-in-chief

**P.S.** All special reports can be accessed at **Powerhouseprofits.net**

**User Name: php891**  
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## MODEL PORTFOLIOS

Security	Symbol	Position	Rec Date	Rec Price	Current (6/28/06)	Current Div. Yield	% Gain /Loss
<b>Cameco Corp.</b>	CCJ	Long	1/21/05	\$17.35	\$37.30	0.43	+115
<b>Cheniere</b>	LNG	Long	6/22/04	\$9.51	\$35.23	n/a	+270
<b>Consol Energy</b>	CNX	Long	2/21/06	\$31.57	\$44.95	0.62	+42.4
<b>Suncor Energy</b>	SU	Long	4/19/04	\$26.90	\$77.60	0.41	+188
<b>Precision Drilling Trust</b>	PDS	Long	1/20/06	\$34.16	\$31.94	11.65	-6.50
<b>FPL Group</b>	FPL	Long	8/31/05	\$43.09	\$40.41	3.71	-6.22
<b>Usec Inc.</b>	USU	Long	1/20/06	\$13.72	\$11.10	n/a	-19.1
<b>Electro Energy</b>	EEEE	Long	6/10/04	\$3.25	\$1.88	n/a	-42.5
<b>Gulf Island</b>	GIFI	Long	10/17/05	\$25.85	\$19.36	1.55	-25.1
<b>Golar LNG</b>	GLNG	Long	6/22/04	\$14.40	\$13.18	n/a	-8.47
<b>Northern Orion</b>	NTO	Long	4/28/06	\$5.04	\$4.44	n/a	-11.9
<b>Sonic Corp.</b>	SONC	Long	4/28/06	\$22.42	\$21.07	n/a	-6.02
<b>Chipotle Mexican Grill</b>	CMG	Long	4/28/06	\$50.78	\$59.95	n/a	+18.1
<b>Cabela's</b>	CAB	Long	3/28/06	\$20.55	\$18.04	n/a	-12.21
<b>Stillwater Mining</b>	SWC	Long	3/28/06	\$15.73	\$11.82	n/a	-24.9
<b>Norfolk Southern</b>	NSC	Long	9/22/04	\$29.17	\$50.98	1.25	+74.8
<b>Silver Wheaton</b>	SLW	Long	2//17/06	\$7.44	\$8.01	n/a	+7.70
<b>VirtualScopics</b>	VSCP	Long	11/8/05	\$5.00	\$6.00	n/a	+20.0
<b>Nokia</b>	NOK	Long	6/24/05	\$16.99	\$19.13	4.00	+12.6
<b>IPO Fund</b>	IPOSX	Long	5/30/06	\$13.51	\$12.27	n/a	-7.74
<b>Frontier Oil</b>	FTO	Long	5/30/05	\$27.31	\$28.03	0.43	+2.64
<b>I.D. Systems</b>	IDSY	Long	6/28/06	\$16.50		n/a	
<b>Pacific Ethanol</b>	PEIX	Long	6/28/06	\$21.00		n/a	

All positions split adjusted, dividends not included in gains/loss. Dividend yields obtained from NYSE.com as of close on 6-28-06 with the exception of NOK. Nokia American Depository Receipt dividend yield obtained from Yahoo! Finance.