

Untapped Wealth

October 2011 Edition

A Volatile Market..

It's no secret that the market today is not the same one we were once so used to. The game has changed, albeit its temporary, it's still changed.

The classically profitable blue chips that once would deliver steady and moderate profits have been stuck in a constant game of ping pong and as a result, investors across the globe have been hosed.

So how do you pick up the pieces of a portfolio that had once been high and mighty? Well, in this market, there's two ways..

1. Go for the undervalued: Because of the sea of red this market has seen, good companies with solid profits have taken major hits. Fundamentally speaking, there are no technical reasons for some of these stocks to be down as low as they are besides being casualties of the market.
2. Invest in Volatility: Now that may not make much sense, but I assure you, it will once you see what I referencing.

Let's Get right to it...

IncrediMail... The star of undervalued.. (MAIL: \$4.75*)



IncrediMail, which was founded in 1999 and is headquartered in Tel Aviv, Israel, designs and markets an integrated suite of customized and entertaining email software products for the consumer or home user markets.

The company believes they are a global technology leader in enriching email interactions by offering users the ability to design highly personalized email presentations. Their innovations in entertaining email technology, along with our large collection of multimedia content for email communication, it is believed, have made the company's website one of the top Internet destinations in the world for downloading entertaining email solutions.

IncrediMail generates revenue by:

- selling our premium software products and services

- licensing and co-branding their Incredi brand to operators of third party websites; and
- Selling paid advertising and sponsored links on their website and email client.

Earnings:

On August 15th, 2011, IncrediMail released the following earnings statement:

"Second Quarter Financial Highlights

- *Q2 revenues were \$8.1 million, reflecting 12% year-over-year growth;*
- *Q2 customer acquisition costs increased to \$1.7 million;*
- *Net income was \$2.2 million for the quarter; and*
- *Cash flow from operations in Q2 was \$2.0 million.*

Six-Month Financial Highlights

- *Revenues for the first six months increased 18% year-over-year, to a record \$16.7 million;*
- *Net income increased 23% year-over-year to \$5.5 million, or \$0.54 per diluted share; and*
- *Cash flow from operations almost tripled year-over-year, to over \$4.1 million.*

Commenting on the results, Josef Mandelbaum, IncrediMail's CEO, said, "We significantly improved our top line growth in the first half of 2011, as our year-over-year organic growth continued in the second quarter primarily driven by an increase in search revenues, which was a result of our successful execution of certain changes required by our search partner. Additionally, to further accelerate future growth, we increased our customer acquisition costs in

a meaningful way. This is consistent with the strategy discussed in previous quarters, to ramp up our investment in organic growth, while maintaining a high level of profitability."

Gross profits for the second quarter were \$7.6 million, up 11% from \$6.8 million in the second quarter of 2010. For the first six months of 2011 gross profits reached \$15.9 million, increasing 18% compared to the first half of 2010.

Research and Development expenses in the second quarter of 2011 decreased year-over-year and, as a percentage of sales, R&D expenses were 18% in the second quarter of 2011, compared to 21% in the same period of last year.

Sales and Marketing expenses increased from \$1.2 million in the second quarter of 2010 to \$2.6 million this year. The increase was primarily attributable to the increased investment in customer acquisition costs."

I believe with the earnings keeping strong in this market and with the undervalued nature the stock does possess, we very well could see this \$5 stock turn \$10 within a few months.

Consider this a long term hold, but like all positions, keep a 20% stop loss on it just in case.

Volatility Is A good Bet

Normally, I wouldn't put those words together, but I am this month because volatility could rack you up some very strong profits.

The second stock for October is VelocityShares Daily 2x (TVIX: \$67*). This is actually an inverse ETF that replicate, net of expenses, the returns of twice (2x) the daily performance of the S&P 500 VIX Short-Term Futures index.



The index was designed to provide investors with exposure to one or more maturities of futures contracts on the VIX, which reflects implied volatility of the S&P 500 index at various points along the volatility forward curve. The ETNs are linked to a multiple (2x) of the daily return of the index and do not represent an investment in the VIX.

The deal with this ETF is that when Europe and the US get volatile, this baby screams.. The only problem is that when we're doing ok, the ETF falls.

That being said, tracking the volatility of regions has its drawbacks and one of them is volatility.

Have a great month.

Tim Fields

Editor In Chief

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*Indicates Initial Recommended Price