

*December 2009*

# Retirement Millionaire

How to Make 1,000% from the New  
'Algorithm Gun' Technology



**Stansberry & Associates**  
*Investment Research*

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# How to Make 1,000% from the New 'Algorithm Gun' Technology

Dr. David Eifrig Jr., MD

The greatest stock gains I've ever made I owe to the president of a pickle company.

His company's headquarters were at the corners of Cucumber and Vine streets in Mt. Olive, North Carolina.

John – as I'll call him – was a hulking man – six-foot four and at least 250 pounds. He was so big that when you shook his hand, you prayed he didn't squeeze. I met him in my Wall Street days when one of Goldman Sachs' partners introduced us on the trading floor.

Somehow we got on the subject of health. He told me he was on dialysis. His kidneys and blood cells weren't working right. Then added with a big grin that a new drug had changed his life. (I was years away from med school then, and didn't know a kidney from a gallbladder).

John explained how his blood had returned to health, and he had rediscovered the energy lost years ago. Once again, he was walking with his wife and "regularly doing things" he did when he was 30 years younger (said with a wink).

His story was so convincing and his passion so strong that I asked him the name of the drug. He said "E-P-O." The company that made it was called Amgen. Then he turned to me and said: *"Son, I know when things work and when they don't. And this stuff works. In fact, I've bought several thousands of shares, and you'd be wise to do the same."*

Back at my desk, I reviewed what I could find about this unknown Amgen and put around \$15,000 into the stock.

Many of you will recognize Amgen as the preeminent biotech company in the world today, having pioneered the use of bioengineering in the development of drugs. But back in 1987, its success was anything but assured. Amgen was merely one at least 20 other equally promising biotech startups.

It was a risky play. But everything I learned about it looked great: The science made sense, and I figured any drug that could save or alter a life like it had the pickle president was probably a good bet.

I made nearly 21 times my money over the next three years... a little more than \$250,000.

I never saw the pickle guy again to thank him, but the experience taught me one of the greatest investment lessons of my life: When you find a risky opportunity that has the possibility of making you a lot of money, take it... but "take" it small. Throw a little bit of cash that way. Don't throw in the rent money, but if you can afford it, toss in a little play money.

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My investment in Amgen represented a small (1% or 2%) portion of my portfolio. At any one time, I had three or four speculations like that going. And I don't say this to brag, but the simple fact was, it was money I could lose and not worry about coming up with my next rent check.

I've found the same kind of idea for you in this month's *Retirement Millionaire*. I believe we have to keep this newsletter filled with simple, common-sense ideas for your wealth and health. Usually, my ideas won't involve much risk. But occasionally (perhaps once a year), it makes sense to take some play money and try to hit a home run. Here's the rest of the story...

## **This Machine Hunts Cancer Better than Humans**

Right now, I'm actually pretty bearish on stocks. The government stimulus has given false hope to many. Sales remain slow, and bottom-line numbers are only positive because so many people have been fired. Without jobs, those people won't spend... and without spending, profits will quickly dry up.

But remember, there's a difference between being light stocks and total abstinence... In my writings on building an investment portfolio I said you should always have *some* money in stocks. How much and which ones are the key questions. For my taste, I usually stick with the conservative plays: utilities, Johnson & Johnson, convertible bonds, and high-yielding "virtual banks."

But in this report, I'm going to lay out a smart speculation that could return hundreds of percent gains... and I'm going to explain how to play it, so if things go south, your financial stability won't be in jeopardy.

Recently, I've found a company I think will change the way doctors examine skin cancers. But it's risky, so you cannot put much money into it. That way, if we're wrong, the cost is harmless.

Let me explain the opportunity...

This year, doctors will diagnose 140,000 new cases of skin cancer in the U.S. alone. The deadliest form is melanoma. It's the No. 1 deadliest cancer among women aged 25 to 29.

But the secret to melanoma is finding it early. Caught early, melanoma is almost 100% curable. Found late, it's deadly – there is no known cure.

Until this year, your general doctor or dermatologist (a skin doctor) would simply look at the moles and lesions on your body and compare what they saw to a set of memorized patterns to decide if they were cancerous and needed to be cut out. The biopsies (as the cutting out is called) are painful, many disfiguring. As a doctor, I've seen many of these biopsies performed, and I can tell you they are more art than science.

Until now, that is. I've discovered a new medical device that scientifically examines the skin. The hand-held scanner takes 10 pictures with a different wavelength each time and combines the images using complicated algorithms. The composite picture is compared with a database of melanomas and harmless lesions. The computer output is pretty simple: "biopsy" or "no need to biopsy."

Of course, you must be wondering how the computer does against real doctors. Last February, this was studied across seven locations. The results were reported to the scientific community and the FDA. Bottom

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line – the computer smashed the doctors.

To evaluate how good a test is, you ask two questions: Does the test catch the disease (the sensitivity), and does it tell you who's disease-free (specificity). In the case of this technology, called MelaFind, the machine was better at both.

In one study, 40% of the 39 doctors failed to detect seven or more melanomas (out of a possible 23), and 46% failed to detect the same melanoma as MelaFind. The specificity of the machine was 2.56 times better than the doctors. And that's the test that allows you to sleep well at night.

Better specificity of the tests means fewer biopsies of healthy lesions, too. That means fewer scars and less worry. Plus, the machine is equal to the best experts and better than most at discovering the real disease, which means it can be caught early – while the odds of surviving are still in a patient's favor.

One other thing to know, some dermatologists believe the ability of the machine to scan below the skin means the technology can pick up smaller and earlier lesions, too. Although the study wasn't designed to test this, it makes scientific sense to me.

So here's a noninvasive, handheld machine that's better than a dermatologist at picking out deadly skin cancers. Moreover, the machine will help doctors avoid unnecessary biopsies, meaning less pain, disfigurement, and even fewer wasted dollars.

## What's the Company and What Are the Risks?

The company I'm recommending is called **Electro-Optical Sciences (Nasdaq: MELA)** and has submitted the data to the FDA for expedited review. The submission date was June 4. By rule, the FDA is supposed to issue its decision within 180 days, so the FDA's decision is overdue.

A decision could come any day now, and I think it will be approved. It's better than doctors, and it's harmless. But you never know for sure when the government is making decisions. I'm trained as an eye surgeon, not a cancer doctor, but researching this device gives me the same feeling I got when I first learned about Amgen... This is a chance to make many times our money.

Once it's approved, not only will dermatologists use it, but general family doctors will be forced to buy the machine too. If you or your doctor thinks you have a "suspicious mole" today, you get referred to the dermatologist. But it might be four months before you get an appointment (precious time when treating skin cancer). With this machine, your family doctor can scan your skin and, voila, you either sleep well that night knowing you're OK or can start fighting cancer immediately.

Better yet: Peace of mind comes at a discount... A quick visit to the dermatologist costs about \$200 versus \$75 to be scanned by your general practitioner. So you can bet insurance companies will lean on docs to adopt these tools once available... Believe me, these machines will sell, if approved.

One note of caution: We aren't the first investors to find this stock. When Electro-Optical released its study results this spring, the stock price jumped from its historical \$3.50-\$6 range to around \$7.50. Late this summer, a *Barron's* article drew more attention to the stock, which pushed it to the \$10 level where it sits today.

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Regardless, I think the stock has plenty of room to grow. The company has enough cash to last another year or so. If sales start early this January, as I'd expect, the company would make money very quickly. Once word spreads that the machine is available, doctors would be foolish to not offer it. I can even make the case for it being malpractice to not offer the scan.

And here's the beauty of its business model... The MelaFind device uses a unique storage card to capture the images it takes. ***And each patient requires his own card.*** (This is to comply with privacy and insurance laws.)

This means every doctor's office with this device will burn through hundreds of these cards. So the company will sell the machines cheaply, and make money by selling many, many digital storage cards.

Think about the potential... Each card will hold scans for about eight to 10 lesions and cost \$75. The margins on the card are relatively high. If the company makes \$50 on each card, the math starts to add up quickly.

On average, 750,000 melanoma patients in the U.S. require ongoing care. Each one of those patients has on average nine or 10 lesions examined in course of his care. So that's 7.5 million scans a year.

Add to that another 650,000 people a year who visit a dermatologist for the first time. As a group, each of these probably has 10 lesions to scan – another 6.5 million scans needed each year.

So 14 million new scans requires 1.4 million cards at a profit of \$50 each, or \$70 million a year. Plus, the machine sales would probably add about \$10 million in bottom line. If the company captures even half that market in the first year, that's nearly \$45 million in the first year.

But as I contend, nearly every doctor will need to get this machine immediately. At the very least, more people will hear about the scanner and decide to go and get checked – because it's so fast and the answer comes back almost immediately.

If you consider 10 million people in the U.S. are high risk for melanoma – fair skin, blue eyes, prone to freckles, one or more serious sunburns, etc. – demand could easily reach 100 million scans a year, or \$500 million a year to the bottom line.

Currently, the stock trades for about four times my estimate for next year sales. Looking forward, if Electro-Optical simply maintains that share price-to-sales ratio and reaches my sales estimates, its market value would balloon to \$2 billion, or \$100 a share.

## **It's Time to Act**

What should you do? I see two possible ways to play this...

First, let me reiterate... ***This is not for the rent money.*** If you make this investment, only use your play money. By that, I mean only use money you can afford to lose. Specifically, never put more than 1% of your total portfolio into a speculative the idea like this one.

Here's the first way to play Electro-Optical Science: Right now, the company trades for about \$10.

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That's a fair price to pay for a company with this potential.

**I recommend you buy Electro-Optical Sciences (Nasdaq: MELA) today for no more than \$10.50 a share.**

Please remember, this is a thinly traded stock. On average, only \$4 million worth of its shares trade each day. That's not a lot, and a sudden surge in buying could artificially inflate its price. If you pay too much for the shares, you reduce your odds of profiting on this investment. Do not pay more than \$10.50 for this stock.

However, if you're a bit more patient and willing to hold out for the best possible price, I have a second way to play this idea for maximum gains.

Remember, the FDA's approval announcement is due in just six weeks. If the agency OKs the device (and I'm confident it will), the stock could trade *down* to levels over the next couple months.

Early investors in these small startup technology firms often cash out their shares as soon as good news bumps up the stock's price. These speculators simply want to take their cash and move on to other early technology plays. Perversely, this can weigh down the share price. In this case, by being patient, I think we could even buy MELA closer to \$7 or \$8.

But whether you buy now or wait for the announcement, I urge you – **do not pay more than \$10.50 a share.**

Lastly, plan on this stock being volatile. And because of that, we don't want to be stopped out too early. So while we generally use a 25% stop loss on our stock positions (which I explained in the March 25 update), we'll use a 50% stop loss on MELA. Sell your shares at any point the stock closes down 50% from its highest price during the time you own it.

I expect we can make 10-15 times our investment... but we must be prepared to hold it for three to five years... and that means hanging on through some big ups and downs. Again, that's why we're only putting only 1% of our money into this and using a 50% stop, the most we can lose is 0.5% of a percent of our portfolio. And remember, play money only, and don't pay more than \$10.50.





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