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THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

SPECIAL INTERVIEW TIMOTHY SYKES

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T I M O T H Y S Y K E S



TWST: Why don't you start by telling us about yourself, and what you want the other guys to know about you, and how you got into investing in the first place.

Mr. Sykes: I have a story that is very different from most. I started with my \$12,415 bar mitzvah gift money when I was in high

school. I was 18, it'd just been sitting in savings account for five years and this was 1999, so my parents gave me control of it, and they said, go to work, have fun with it, and they thought I would lose everything. But instead, within four years, I turned that 12,000 into basically 2 million, just by day trading penny stocks, stocks trading under \$5 a share, the most speculative stocks in the market. I didn't initially want to do that; initially I wanted to be an investor, but I invested in a few companies and their stocks just went nowhere. I got tired after few days and sold them and then I got started with penny stocks, because 1999 the stock market going crazy, nothing was going crazier than penny stocks. That was my introduction to the world of investing, and then I started my hedge fund senior year of college after I turned the 12,000 to 2 million, because I thought I never had a down year. I thought that I could do anything. I thought that I could turn my 2 million into 20 million, and that's when the lessons really began. I was the number one ranked Short-Bias Hedge Fund from 2003 to 2006, but that's not saying much because short sellers as a bunch don't make much money, and I did make money. That made me top ranked which is not that impressive. But when I starred in the TV show, "Wall Street Warriors" in 2007, it became a huge hit and prompted me to write this book, *An American Hedge Fund*, detailing my whole rise and somewhat of a fall when I got too cocky and lost some money when I started ignoring some of my own rules. It's been a roller coaster.

TWST: Your hedge fund that you founded, do you still have that?

Mr. Sykes: I actually closed my hedge fund last month, so I could publish this book and get into the publishing world, because as a hedge fund manager you're limited in what you can say. You can't talk to anybody worth less than \$1 million, you can't talk to the press, and I have too big a mouth for that. I hate being silent, so I just let it all out and I had to close my fund to do it, which is a sad commentary on this industry.

TWST: Tell us a bit more about *An American Hedge Fund*, and how you can get hold of a copy?

Mr. Sykes: The book is available on Amazon.com, Barnes & Noble.com, and through my website, TimothySykes.com. It's been compared to *Reminiscences of a Stock Operator* by the Dow Jones Newswire. It is only available online because I want to teach people to transact online and also it's higher margins for me, which I like, because I am a business guy. It is my story, all the ups and the downs, and I really hold nothing back, because I am so sick of all these financial people. They don't admit their mistakes when they lose money, when they make bad forecasts. A lot of people have said, "Wow, you come off like an idiot in some of these stories that you are telling." Yeah, you know, no one's ever really detailed their penny stock trading experiences, because who trades penny stocks? People think of it as pure gambling, and so I hope to change that, because I do have a system, I do look at certain variables, whether it is a fundamental breakout, a technical breakout, or a news changing event, and I really want to open everything up, so I am all about transparency and that's what my book is.

TWST: This is giving really your personal history of how you made a lot of money from the bar mitzvah money, and were very, very successful and then you came a little unstuck, is that right?

Mr. Sykes: Exactly. I ended up losing a good bit of my money, I don't want to ruin it, because it is more of a story than a strategy book. I am so sick of these strategy books. They are so full of crap in my opinion.

TWST: But it does go into the risks of selling short and penny funds and things?

Mr. Sykes: Yes. I go into my whole strategy, but I don't necessarily say "This is the perfect strategy for you, you should do this". I am saying, "Look it worked for me, here, here and here. It didn't work when I did this." I am kind of like painting a picture rather than giving specifics on how to do this exactly, because the market is constantly changing.

TWST: What about your investing now? You closed your hedge fund to write the book and things, what are you doing investing now, just privately?

Mr. Sykes: No, I actually created a new type of fund, it is called TIM, which is short for Transparent Investment Management, because I am all about transparency and I still do believe that my strategy works, when I stick to my rules. I've actually returned to my initial \$12,000 roots and started over and I am going to try and turn that into 2 million again, but this time I am going to detail every single trade on my website, timothySykes.com, so that people can

see exactly what I am doing. This isn't voodoo, I am not using leverage, I am not using options, all I am doing is trading penny stock momentum. I am buying penny stocks when they break out and shorting them when I think the hype is over, at least the time being. Because when you have these kinds of crazy stories where you turn a few thousand into few million, people are like, "Wow, how do you do that?" And you can't just say, "Oh, I trade penny stocks", that's not very descriptive. This is going to be every single trade; I started this on November 1st with 12,000. Right now I am up to about 14,500 after two months. It is not easy. There is a pattern day trading rule, which is in effect now, which wasn't there last time I had this little money, and so I can't day trade as much as I like. It is tough, but it is the journey, and the journey is wonderful.

TWST: What are those limits on the day trading, can you explain that a bit?

Mr. Sykes: I guess in 2001, the SEC instituted a rule to protect smaller investors from themselves and from churning accounts so that you cannot day trade, which means buy and sell or enter and exit a stock in the same day. You cannot do that more than, I think, four times within five days. While I am trading, I like to trade hundreds of times a day, so I am definitely limited, which is good, because I have a problem with over trading, and I think it is actually good for most investors, but it is definitely an obstacle until I get to the magical \$25,000 barrier where the SEC has determined that people with accounts over \$25,000 are no longer subject to this kind of imprisonment.

TWST: It is protecting the amateurs, so to speak?

Mr. Sykes: Yes, exactly. I think I am literally the only professional investor to go back to a small dollar amount, because again I am not in this for the money so much. Yes, I think I can repeat the feat, but it's more about teaching smaller investors how to do this, because there is really nobody else out there who cares about people with \$10,000 or \$20,000. These people are trading stocks, a lot of them are trading penny stocks, I am not the only one. Some of these stocks trade 10 million shares a day, but yet no one really has given any honest experiences or details on how to trade these stocks, and that's why people think that it is pure gambling, because there is not any information out there. I am hoping to change that.

TWST: What about other people's money? Is this purely your own or other friends or family members wanted to come in with you?

Mr. Sykes: No, this is purely my own money. I don't want to deal with any regulations or managing other people's money. When I started my hedge fund, I learned a ton about 'OPM', or other people's money, and it just brings up a whole bunch of issues and it changes the game. I've had

the most success managing my own money because there are no expectations and that's the way I like it.

TWST: Tell us about trading penny stocks and what interested you in the first place into the penny stocks?

Mr. Sykes: Well, they are very affordable and they are very volatile, which are two very good things that suit my personality, because I don't have patience and I find I am much better at predicting a \$5 stock rising \$1, which would be a 20% gain than a \$20 stock rising to \$24, because when you move up a dollar, yes, it is a big move for a \$5 stock, but it is a lot easier for that to move 20% than a \$20 stock. The key is just figuring out which kind of news, what kinds of variables will influence a stock enough to move it 20% within one day.

Then how do you try and predict those variables? What I found is that I don't try and get in ahead of the news, I like to wait for the news to come out and say, wait a minute, this news has this kind of effect on the stock, this has happened many times before. Like when a newsletter promotes a stock, and the stock rises, usually, it is not going to last, because it is just a onetime event, whereas if a company reports earnings and the stock rises, then, earnings are the company's fundamental business, that's a game changing event. I look at these kinds of events individually and see how stocks react to them.

TWST: Most investors are scared of volatility and yet the volatility is your friend I take it in this type of investing?

Mr. Sykes: Yes, I love investing. Again, I am not like a buy and hold investor, I could care less about these companies. Fundamental research, sure, I do fundamental research, but how can you do fundamental research on a stock with no fundamentals or stocks with questionable fundamentals, where an analyst puts out some core research about it and then at the bottom of the research it says this analyst was paid 250,000 shares of this company? It is not true research, and that's the kind of stocks that I deal with. Again, it all comes down to a lack of trusted information on these stocks. It is all a momentum game. It is hype, it is greed, it is manipulation, and it is a lot easier from my perspective because it is very easy to sense how much greed there is in the marketplace when there is no company behind it.

TWST: What is the environment like for your type of investing at this time?

Mr. Sykes: It goes in and out every few months. Right now solar is very hot. A lot of these companies have gone from \$5 to \$20 within a few day or weeks. Even though these stocks are at \$20, I still think of them as penny stocks, because just a few weeks ago they were at \$5, and again the fundamentals aren't there. I've been playing with a lot of

solar stocks, companies like **Solarfun** (SOLF) and **Canadian Solar** (CSIQ). They all have solar in their name, and these kinds of stocks, they have very simple patterns. They move like pendulums, and the key is just trying to predict which way the pendulum is going to swing. You don't want to get caught on the wrong side of the momentum, because it will really hurt and I've been hurt. It is a question of taking as much profit as you can without risking as much. I think most of these companies are crap, but I am not just going to short sell, or bet against them, all the time because I know that lesser quality companies can actually rise quicker than quality companies.

TWST: You mentioned solar companies. Do you find certain themes like solar and go for that type of stock?

Mr. Sykes: Yes. The theme that seems to get people most excited is when you have a new technology, whether it would be solar or ethanol or -- I don't know. There are a million different themes that have played out over the past few years. China was very hot for a while, Japan was very hot. Whenever you can build a case around a technology or a group of stocks or an industry, and that gets people really excited, and they want to invest in it and they say, oh, I want to be invested in China, China has tremendous growth, I want to be invested in solar, oil is high, people are going to rely on this industry. But even if the technology is hot, it doesn't mean that you should actually buy into the stock because the stock and the company could be complete crap and they usually are. Out of all the thousands of penny stocks that I've ever traded, only one company, **Dynamic Materials** (BOOM) has ever made it. Every other single penny stock has failed or their stock has not stayed double digits, which is kind of remarkable, if you think about it.

TWST: Is it important to understand what the company is trying to do?

Mr. Sykes: Again, I am working on the thinking that this company is going to fail, no matter what they do. I am a cynical 26 year old. If you think that they are going to fail whatever they do, why does it matter what they do? What I care most about is that a company, in order to try and succeed, they are going to have to raise money and they want as high a share price as possible. In order to get a high share price, you have to put out lots of good news and fluffy news. As long as you raise the money at a high share price, that's all the company cares about. My thinking is, how can I take advantage of this, and that's why I am a short-bias manager, because I can't predict when a company is going to put out a fluff press release, they could put it out anytime, and I have trouble sleeping at night when I am long a company that I know to be crap just because I think the hype will last longer. I sleep much better betting against these crooks.

TWST: It also takes away the emotion of owning a stock too.

Mr. Sykes: Yeah. I mean, emotion plays an important part and this is why penny stocks do so well because people get emotionally involved saying this technology is going to be great, this company is the future, and that is just not the right way to think. Maybe some people who invest in these companies and they get out 20 times their money within a few months, that's great. I have problems holding more than a day or two because these companies are, they are just so slippery.

TWST: You mentioned earlier about the "Wall Street Warriors", was it?

Mr. Sykes: Yes.

TWST: Tell us about that.

Mr. Sykes: Well, I got nominated to *Trader Monthly Magazine's* 30 under 30 list last year, 2006, and then that got me on CNBC. One of the producers of this TV show saw me on CNBC, he said, "Hey, we are doing this TV show that's a reality show of Wall Street people, we'd love to have you on." They came to my house, watched me trade for a day and they said, let's do it again, and I ended up starring in five of six episodes and the show has aired a thousand times now because it takes a look at eight different people on Wall Street, their lives, their interests. Since some of the other characters have credibility, you don't really get into their personal lives. I am like, screw it, you can follow me on dates, watch me throw a party, watch me trade, I have nothing to hide, and I love it. That's the way I live my life.

TWST: I'm also very interested in your idea of being so transparent too, which isn't usual with investors.

Mr. Sykes: Yeah. I mean there is no transparency. When I go on CNBC, they say, hey, we love you to give some stock picks, but you can't talk about any company under \$500 million. I said, wait a minute, my bread and butter are companies trading at under \$500 million. They say, sorry, regulations, industry regulations. *TheStreet.com*, I worked for them for a while. They said never write about anything under \$250 million. You have this whole kind of bottom culture that no one has any viable information about, because people are so scared of getting sued, and I mean we live in a litigious society, they are right to think that. But it's kind of scary that we know more about like a AA baseball player than we do about a \$100 million company. I mean, think about a \$100 million company, they probably have 50 employees. Sure, there are a few SEC filings, maybe, if you are lucky, because most penny stocks are not required to file with the SEC. It's a very sketchy situation and I blame the whole system for my gains and my losses; my gains because there are so many suckers out there and I took advantage of them because I'm just shorting stocks when they are buying

stupidly and my losses because I actually gave into one of these situations. I believed in the company's technology and I got what I paid for, and I lost \$700,000. My whole journey is a result of the lack of transparency and I want to change that.

TWST: How many stocks generally are you trading in?

Mr. Sykes: I have a watch list of approximately a thousand stocks which I narrow down every single night to approximately two or three dozen, and then during the day I look at my two or three dozen prime targets, and usually three or four of them perform in a way that makes them interesting to me, where if they are moving 20% to 80% within the day. Companies that are just moving sideways, I don't care about. I like volatile companies, because a company that is up 20% in one day usually will either continue moving higher in a ridiculously volatile way or reverse. Either way I can bet on that. I can't bet on a company staying flat, that's irrelevant to me. Usually I'm only trading one or two stocks at a time. Right now I have one stock.

TWST: The Covestor account that you have, is that together with your website?

Mr. Sykes: Yeah, everything I do is tracked there. Covestor is kind of funny, because I mean, it says since I only have one stock or two stocks at a time, it says that I put like 50% or 100% of my portfolio in the stock, which is not true. But again, it doesn't show the share size. It's kind of funny to see what the results come up with because I guess this is an unorthodox investment approach. I only put about 20% of my assets in per play.

TWST: Your job though means constant and daily watching the stocks, so it's not for everyone?

Mr. Sykes: Well, I mean I'm watching daily, but what I found is strangely enough, the greatest opportunities stand out far above the rest. Even though I'm always looking, if you really want to learn this system and wait for the right time, you could probably watch weekly and do better than a maniac like me. I wish I had the patience to stand back. But I'm addicted to trading, I like the profits. I'm also teaching people every single day on my website. I think it is for everybody. I think people should do this instead of playing video games and watching TV, but you have to really understand it though. Financial speculation is not just for people who think, "Oh, I will do this part time." I mean this is like surgery. So, you don't necessarily have to watch it everyday, but you should devote an hour or two a day to learning about the variables.

TWST: Have you any books that you can recommend or did you write your book because there were none for your type of investing?

Mr. Sykes: On my website, timothykykes.com, I have a list of 300 books that I've read, but again none of

them deal with penny stocks. *How to Make Money in Stocks* by William O'Neil, *CAN SLIM Investing*, a very popular book, very popular approach, and you can use that because it becomes a self-fulfilling prophecy, because I don't necessarily believe in any of these strategies, but because so many other people do, that makes it more likely to succeed. *The Art of Short Selling*, that's another good book. But again, I just started my publishing company, give me some time, I'm going to be coming out with some pretty detailed books on short selling. I think this is a hugely misunderstood strategy. How many short sellers do you know? Nobody.

TWST: How is Covestor able to help you?

Mr. Sykes: Covestor, well, basically, I just upload my statements, my trades there. It gives me, a) creditability and b) it's a new networking site. I already have, what 45 followers after a month of being on this site, and I'm not even in their ranking system yet. I'm really looking forward to see what Covestor can do, because social networking in stocks, I think it's the future and I think it's a whole lot more than just picking random stocks which is what most market commentators do. They pick random stocks on TV. People like it, because it's nice and easy. Oh, let me trust this guy, he looks like he has an expensive suit. Picking random stuff is not the way to make a lot of money in the market. Sure, you might win, you might lose, whatever, but it's just random. The key is learning about strategies and variables and patterns. It's not easy, but Covestor and my publishing company will help with that. We are on the same path.

TWST: It's the transparency and helping others is a great thing in the investment world and quite new to a lot of investors.

Mr. Sykes: Yeah, it's interesting. All these market commentators, they are talking. I'm a talker, but I can at least back it up with specific positions and say, look, if I'm recommending this stock, you can see it in my account, I own it. I'm not just recommending it because I need a stock pick which is what a lot of commentators do.

TWST: Is there anything else then that you wanted to bring out in this interview that we haven't touched on?

Mr. Sykes: I really want to make the point that I think everybody should learn about the stock market whether you are an investor, whether you are a trader. By learning about the stock market, you have to learn about all strategies. A lot of value investors, they say they won't review my book because I am a trader. I said, are you kidding me? That's the dumbest thing I've ever heard. We might not agree on strategy, but I've had success. Even if I didn't have success, you really have to learn about all the strategies, all the players involved, because the whole market is made up of all these players and strategies. To better understand everything, you really need to learn everything. You can't just

learn one strategy and say, “Oh, I know about this strategy, I don’t need to know anything else.” I am really going for full transparency, full openness of everything.

TWST: Well, it’s been great talking to you and you really are a great character and I’d love to see you on CNBC, I am going to be watching out for you.

Mr. Sykes: Just wait. CNBC, I don’t know. Last

time I brought some female models on, they weren’t too happy. I am coming out with my own TV show though, it’s called Tim TV. It’s going to be debuting in early 2008 on the Internet because I’m going to be all Internet based. I really think that’s the future. Tim TV is going to be pretty crazy, you’ll see.

TWST: Thank you. (PS)

