

<http://www.marketwatch.com/news/story/axial-vector-engine-runs-hype/story.aspx?guid=%7B948DA676-EB93-44F4-8B70-599AD158408D%7D>

## Stupid Investment of the Week

### Commentary: Axial Vector Engine runs on hype

By *Chuck Jaffe*, MarketWatch



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BOSTON (MarketWatch) -- If you listen to business talk radio, you might hear executives from Axial Vector Engine Corp. tell a great story about a company that sounds like a strong buy.

It's a tale of developing a new, unique type of internal-combustion engine, one that generates more energy for less effort. It's hard to listen without imagining countless applications for the technology in today's energy-mad global economy.

By the time the corporate brass is done talking, you're ready to go check out the firm's Web site and ask for its investor kit.

But if you go any further than that, you're headed for a Stupid Investment of the Week, because Axial Vector Engine bought the radio time for the interview, and the executives gave a description of the company that, suffice it to say, smoothed out the rough spots.

Stupid Investment of the Week showcases the concerns and flaws that make a security less-than-ideal for the average investor, in the hope that spotlighting trouble in one case will help readers recognize danger elsewhere. While obviously not a purchase recommendation, neither is the column intended as an automatic sell signal, as there may be times when dumping a worrisome investment simply compounds the problem.

In the case of Axial Vector Engine [AXVC0.91, +0.09, +11.0%](#), the big problem is hype, and how the stock doesn't quite live up to the spin. The Portland, Ore.-based company is far from the only firm buying its way into talk radio or showing up at investor conferences, but it certainly is one of the most active; it has been involved in nearly 20 paid interviews in the last year-plus on three syndicated shows -- two national, one regional to New England -- hosted by Stu Taylor.

Taylor discloses each day that he may be paid to do some interviews -- he is never paid in shares, however -- but that disclosure is often separated from the interview itself. Taylor, who is careful not to make specific stock recommendations, does his job well; by the end of a Q&A session, listeners may well be sufficiently intrigued to check out an interviewee's Web site.

For investors who go to the AXVC site ([www.axialvectorengine.com](http://www.axialvectorengine.com)), the highlight of the investor kit they get on request is the plastic replica of an axial vector engine -- a cool little desk toy -- rather than the financial numbers.

Management's job is to run a company; it's the job of the financial market to price the stock. Whenever you hear top brass spending money to essentially do commercials about the stock's future, you should worry that executives are thinking too much about the stock price and not enough about running the business.

Rick Fowlks, corporate counsel for AXVC, noted that the company has done the shows "to increase awareness of what we have," but he could not say if the appearances have lured actual investors. If the hype machine were not, well, a smooth-running engine, you have to figure management would explore different venues for exposure.

Axial Vector Engine's eponymous product is a motor that converts combustion energy into rotational energy without the use of a traditional crankshaft. That's a complicated way of saying it's a small, light engine that generates more horsepower and torque than larger machines. According to Samuel Higgins, the AXVC director who I heard on the radio, the vector engine is 40-plus percent more fuel efficient than conventional motors.

The applications seem endless, but think military and industrial rather than cars; no one has oversold the company's potential market in passenger automobiles, noting that AXVC has other markets to pursue first.

Alas, real-life applications of Axial Vector's technology remain a pipe dream, as the engine -- which has some true believers in the scientific as well as the investment community -- is still in the prototype-development phase. That critical stage is scheduled to be complete this month, but "making prototypes" is another way of saying "not making money." Axial Vector has no current revenues -- and hasn't had a single penny in sales since it was started -- and that there will be no cash-flow until the engine gets out of development and into production.

Those financials are buried deep on AXVC's web site, but the average investor finding the numbers might find it hard to ignore the fact that current liabilities of \$4.3 million are almost eight times higher than the firm's assets. That's a working capital shortage of about \$3.8 million; the most recent quarterly report, for the period ended Dec. 31, noted that the company has "insufficient working capital to implement our business plan."

As development continues, losses are mounting at a faster pace.

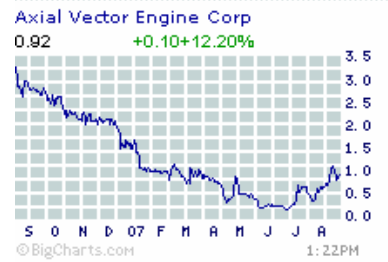
But that kind of dire picture doesn't stop the hype engine.

At an investor conference in mid-January, Higgins -- who was out of the country and unavailable for comment for this column -- said AXVC will post \$40 million in profits for its next fiscal year, ending in June 2007, and \$140 million (that's \$3 per share) for the 12 months ending June 2008.

It takes one heck of a financial engine to go from a standing start to more than \$3 per share of earnings in roughly two years of production. You can't find that kind of horsepower in AXVC's numbers.

The average investor isn't likely to uncover -- from the investor kit, Higgins' radio interviews or otherwise -- that Higgins controls over half of the firm's shares, or that the business currently is carrying its third name in the last five years.

What they will see is stock performance that stop-and-go struggling engine. AXVC lost more percent of its value in 2004, but posted a 275 rebound from that low in 2005. It's up more than percent this year, apparent testimony to the fact hope sometimes triumphs over logic.



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15  
that

Good hype doesn't always make a good stock. In fact, management of the best companies tends to get hype because they make a superior product, and not because they tell you they make something better in the way AXVC does.

Investors who hear something that sounds terrific need to consider the source, root out the conflicts and dig extra deep. ■

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