

ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES

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Many Lessons can be Learned From the Costly Traps Set by Wall Street Analysts

As a youngster, early on I learned that glitter and hype do not translate into gold. More specifically, I learned that betting my allowance on Canadian uranium stocks as advertised in the pulp magazines that I read for relaxation, was a sure-fire recipe for financial disaster. Twice I tried and twice I lost my dollar stake. In later years it occurred to me that the perpetrators of the scams probably received enough dollars in the mail, from naïve greedy puppies like myself, to make their promotion worthwhile. Nevertheless, I hold no grudge against these ugly promoters who preyed on the ignorance and potential avarice of a whole generation of youngsters. If pushed a bit, I may admit to being indebted to them for a valuable though an inexpensive lesson.

This experience, in later years, when I had some money available for playing the market, taught me to look before leaping. By that time I had studied Benjamin Graham's *The Intelligent Investor*. Professor Graham was Warren E. Buffett's guru and more than two decades ago I caught on that Buffett was a savvy investor and Graham was a man to heed.

Ben Graham stated that the "ideal form of stock analysis leads to a valuation of the issue which can be compared with the current price to determine whether or not the security is an attractive purchase. This evaluation, in turn, would ordinarily be found by estimating the average earnings over a period of years in the future and then multiplying that estimate by an appropriate 'capitalization factor'." The approach is relatively easy to apply to basic indus-

tries such as aluminum, steel, automobiles and the like. There are readily accessible multi-year statistics indicating earning power under varying conditions and comparisons with competitors. This allowed for making predictions with some degree of confidence as to their accuracy.

We learned to evaluate innovation such as produced by Edward Land and the Polaroid camera. We were able to understand the potential of the photocopying

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In this Issue

Many Lessons can be Learned From the Costly Traps Set by Wall Street Analysts
VENTURE CAPITAL CORNER
Capital Raised by Israeli High Tech Companies by Sectors in 2000 and 1999
Soros-Comverse fund among investors providing \$10m to Bluetooth startup BlueSoft
Dell Plans to Invest
A Swiss Made it Happen First:
Israelis Develop Follow-on Cardiac Medical Technologies
Telemedicine Company is Expanding
2000 was Record Year for Electronics & Data Industry
Tower Semiconductor Completes \$1.0 billion Financing for New Chip Plant
Vishay Investments in Israel at \$500 million as Exports Soar \$700 million in 2000
How the Global Individual Investor Can Capitalize on Israel's High-Tech Boom
Amdocs to Build Plant in Development Town
Internet Warfare.....Beirut Website Knocked Out
Ofir Rahum: First Terrorist Lynch-victim by Internet
The \$1.0 Millennium Portfolio is Fully Invested
ISRAEL HIGH-TECH MODEL MILLENNIUM PORTFOLIO
ECONOMIC REVIEW FOR 2000
Rapid Growth in 2000

machine. Some of us bet on Polaroid and Xerox and our only regret was selling out too early. However, when considering investing in the New Economy companies, we are denied the comfort of having many years of earnings history. The competitors in transferring voice and fax by circuit or packet technologies, already have accumulated several years of exponential growth. Yet there is no assurance that their "unique" product or its knock out technology, will become 'world beaters'.

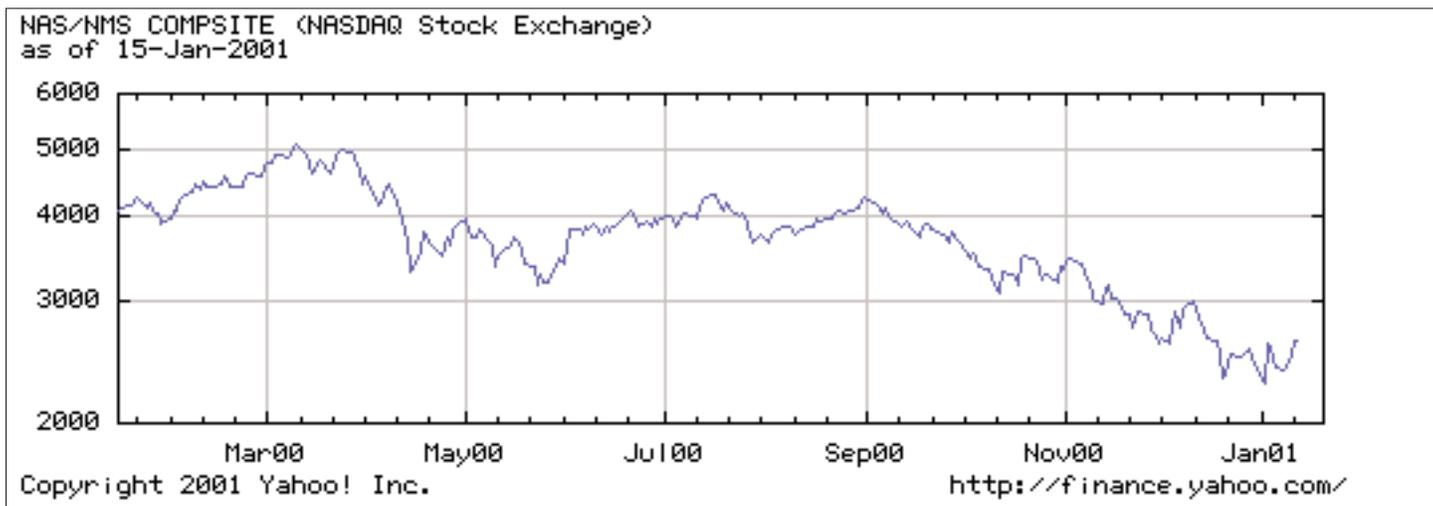
In 2000 only a few investors avoided the trap set by Wall Street analysts issuing recommendations. A recently published study revealed that of the 8,000 recommendations outstanding, less than three hundred contained sell recommendations. This was the key factor which more than anything else was responsible for the more than a trillion dollars in losses suffered by Nasdaq investors in 2000. In spite of countless corporate earnings warnings announcements, while simultaneously the Nasdaq was precipitously falling by more than 55% from its top, the analysts kept recommending to investors to continue to buy the shares of com-

expectations for the US economy. Those who have proclaimed that they will not touch technology, because they were burned by a dot com, will return to it in a 'big way'. The New Economy, Globalization and e-commerce will continue to expand. Those who provide the answer to the needs of the big theme will continue to thrive. Among the beneficiaries will be the established Israeli companies and the younger ones who are proving themselves as offering added value.

For the investor, the big questions begging for an answer are, where to invest, and the other question: when to invest. It sounds like a tall order but common sense, a bit of contrarian thinking, and tinged with a touch of bravado make the task easier than we imagine. Valuations that seemed astronomically high a few months ago, while clearly still high today, in some cases are beginning to come into view.

The sina-qua non assumptions are that America and Europe will escape serious recession. Alan Greenspan's rate cut is a good start towards that goal.

Even if information technology spending is cut by



panies that were losing their gloss. Even the shares of the bubbly dot com were being hyped. However, a New Year has begun, and investor amnesia undoubtedly will set in sooner than we expect. Asset allocation, what percentage bonds and what percentage shares will depend on one's

corporate America in 2001 computer security will remain a major issue. That spells another banner year of explosive earnings growth for Check Point Software. The company is by far and away the global leader in its field.

WAP or the Wireless Application Protocol, is a set

of standards specifying how cell phone users access the World Wide Web. A technical hurdle to overcome is security on the Internet, which still leaves some issue to be solved. Many believe that the future big bucks lie in wireless cell phone business. But issues of price must be solved. Technology at an exorbitant price will not work in the real world.

Messaging applications have already proved their mettle and Comverse Technology continues to be among the leaders in this field.

We are publishing our choice of seven Israeli high-tech companies that in our view provide winning systems and software for communications, computer security, messaging management voice over IP technology, wireless communications and database. They are most likely candidates to be among the 'Israeli big-time- winners' in 2001. These are public companies and are part of the Millennium Israel High-Tech Model Portfolio. (see p.11)

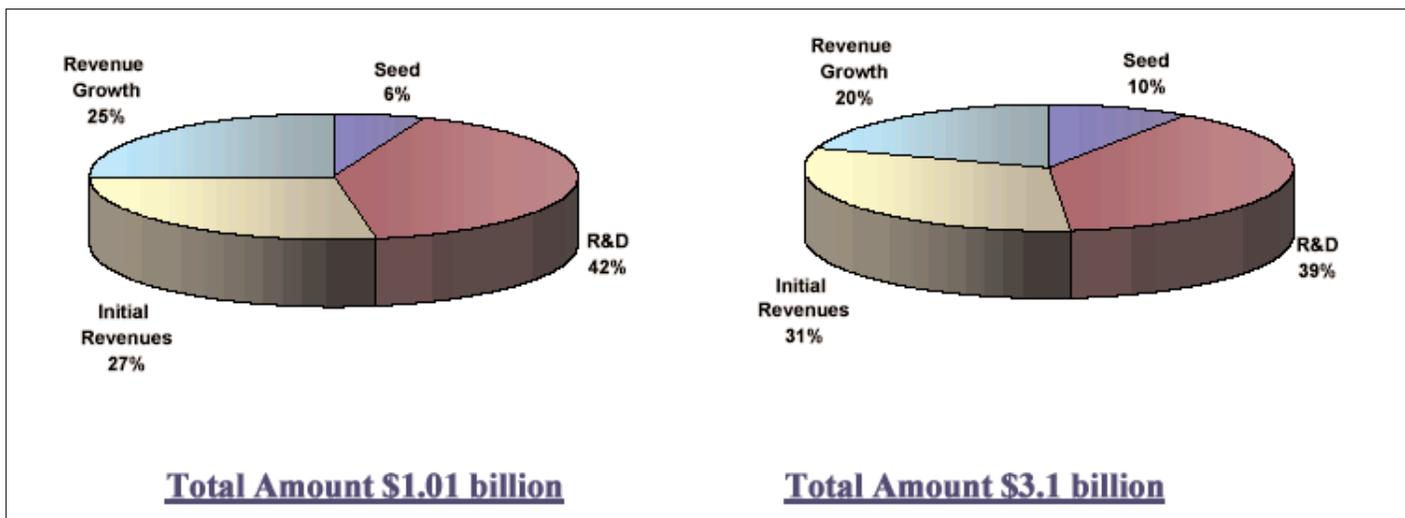
VENTURE CAPITAL CORNER

During the fourth quarter of 2000, 154 private Israeli high tech companies raised \$813.million from venture capital investors, both local and for-

eign. This figure is 24% lower than the amount raised by companies during the third quarter, which totaled \$1.1 billion, but is 137% higher than the amount raised in the parallel quarter of 1999, which totaled \$343 million. These figures were cited in a quarterly survey conducted by IVC-Online, covering capital raised by private Israeli high tech companies, in which at least one Israeli venture capital fund participated. The number of VCs which participated in the survey during the fourth quarter rose from 78 to 84.

The Kesselman & Kesselmam Pricewaterhouse Coopers Money Tree Survey, which also tracks the activities of venture capital in Israel reports similar developments and also points out that Q4 2000 marked a decline, for the first time in eight quarters in venture capital investments in Israel. This report mentions that local funds infused \$343.4 million, while the balance was invested by foreign venture capital funds as well as by a wide range of investors not operating through venture capital funds. These figures support our reports as published in the Israel High-Tech Investment Report of many large investments by foreigners in Q4 2000.

Zeev Holtzman, chairman of Giza Venture Capital and a prominent leader of Israel's venture capital industry had predicted the downturn in



Capital Raised by Israeli High Tech Companies by Sectors in 2000 and 1999

activity a number of months ago. He now points out that had it not been for several rounds of financing initiated in Q3, total investments in Q4 would have been drastically reduced. Holtzman added: "Like the slowdown that we foresaw for the fourth quarter of 2000, we expect that the first quarter of 2001 will continue to show a pattern of decline."

A recent article in Israel's respected daily Haaretz suggested that "in the VC world, the big dilemma now is what to do with the \$3 billion cash pool that VCs have to spend, when the industry's forte -- telecom and internet infrastructure -- is now on such shaky ground. However, even the strong funds know that it will now take much longer to examine a company's ability to stake its place in the market. Exits will take longer too. Also, venture capitalists quietly say, that the weaker Israeli VCs are simply afraid to invest these days. The talk in Tel Aviv is that seed investments are tapering off. Still, several early-stage financing rounds over the past month for Israeli telecom-related startups, such as Mobixell, Foxcom Wireless, and Commil, indicate that the market is not dead. In fact, the hard times may even change it for the better", stated the Haaretz item.

Soros-Comverse fund among investors providing \$10m to Bluetooth startup BlueSoft

Israeli bluetooth-technology startup BlueSoft has secured \$10 million in financing from blue-chip investors, including the joint fund of George Soros and Comverse Technologies (Nasdaq:CMVT). BlueSoft is developing a technology to measure the distance between, and the relative location of, communications networks and computer/electronic devices equipped with bluetooth chips.

The company aims to sell its solutions to telecom chip manufacturers.

Albert Cahana, among BlueSoft's founders, said that the company's solution meets a real need in

the wireless market, such as the capability of the customer's wireless device to locate the nearest payment location. Examples Cahana provided of BlueSoft's solution include locating the printer outlet nearest to the customer's laptop, enabling security definitions based on the user's physical proximity to a computer, and enabling immediate inventory of the technical equipment located at a defined radius. The technology can even be used as a system that warns when a child is wandering beyond a defined area, Cahana envisions. BlueSoft was established in October 1999 by Albert Cahana and Yuval Bar-Gil together with MOBAT Communications, a subsidiary of Motorola (NYSE:MOT) and of Tel Aviv-traded Bar Tal Electronic Enclosures, which manufactures long-distance communication products. BlueSoft employs a staff of 20 in Israel and the United States. Investors include the ComSor fund, jointly owned by Comverse Technology (Nasdaq:CMVT) and by George Soros; Star Ventures; American venture capital fund Coral Ventures; Technoplus Ventures, which placed \$1 million, and founder of Qualcomm (Nasdaq:QCOM), Andrew Viterbi. BlueSoft raised \$1 million seed money in February 2000.

Dell Plans to Invest

"The investment arm of the American Dell computer giant, plans to invest in a number of Israeli start-ups", was recently announced by the general manager of Dell Ventures Europe, Gordon Ballantyne.

Dell is one of the three largest computer manufacturers in the United States – with estimated annual sales in 2000 in excess of \$25 billion. In 1999, Dell set up an investment subsidiary to concentrate on strategic investments in companies that made products complementing those of Dell in Internet and communications. Since then, Dell Ventures has invested around \$1 billion in 120 start-up companies. Until very recently Dell Ventures only focused on American companies.

Two months ago management decided to expand and establish a branch in Europe, Ballantyne said. "Now we have the resources and manpower to expand the scope of our investments toward Europe, East Asia and Japan. We have access to Dell's cashflow and we use this to invest in companies."

Ballantyne said that to start with, Dell Ventures Europe would concentrate on four locations - Scandinavia, Germany, Britain and Israel.

Referring to a comment by CEO Michael Dell that the security climate in Israel was not conducive to investment, Ballantyne was quoted as saying: "that was in November. In December we founded Dell Ventures Europe and it was clear Israel would be one of the countries on which we would focus."

Ballantyne, during a recent visit to Israel, held meetings with most of the large venture capital companies. He also met with 10 start-ups.

A Swiss Made it Happen First: Israelis Develop Follow-on Cardiac Medical Technologies

A recent item appearing in the New England Journal of Medicine, describing the world's first coronary angiography caught our attention. It was performed on a 38-year-old man on September 14, 1977. Bernhard Meier, a Swiss doctor at the Cardiovascular Center in Bern explains the event. "It showed stenosis of the left anterior coronary artery just before the first branch. The remainder of the coronary arteries and the left ventricle were normal. I told the patient that Dr. Andreas Gruentzig would offer him an alternative to bypass surgery. The alternative was coronary angioplasty. Gruentzig candidly explained the results that had been obtained in a few hundred patients treated with a balloon for peripheral-artery stenoses and mentioned the possibility of an immediate coronary bypass operation in case of problems. The patient con-

sented without hesitation. The angioplasty procedure, performed on September 16, 1977, went well and eliminated the patient's symptoms. He quit smoking and soon stopped taking all his cardiac medications. On the 20th anniversary of the procedure, in 2000, at the age of 61, the patient had recurrent chest discomfort for the first time. It occurred at rest but not during exercise. He underwent repeat coronary angiography on April 10, 2000. It revealed that the site that had been dilated had normal patency. There were only minor abnormalities elsewhere. The results of an exercise test the next day were clinically normal at a peak heart rate of 140 beats per minute. Gruentzig and his wife died in an airplane crash on October 27, 1985. I do not believe Gruentzig would have dreamed that his first patient could remain free of recurrent symptoms of coronary artery disease for such a long time," writes Bernhard Meier.

Percutaneous transluminal coronary angioplasty (PTCA), usually simply called angioplasty, uses a wire to guide a catheter directly to the blocked vessel. The physician then opens the vessel using one of several methods. In balloon angioplasty, the surgeon passes a tiny deflated balloon through the catheter to the vessel. The balloon is inflated to compress the plaque against the walls of the artery, flattening it out so that blood can once again flow through the blood vessel freely. Open heart surgery is often prevented with the use of angioplasty.

Israeli hospitals provide angioplasty procedures as part of heart care procedures. "We performed our first procedure in 1982. In 2000 we performed 848 balloon assisted interventions. The number of procedures that we carry out annually is on the rise, partially due to an increase in the incidence of heart disease and we are able to carry out these procedures on older patients. The scope of angioplasty is also changing with the broadening possibilities possible with the use of a stent," says Professor Hylton Miller, a cardiologist

and Director of the Catheretization Unit, at the Tel-Aviv Sourasky Medical Center. (In order to keep the artery open, cardiologists now commonly employ a device called a coronary stent, which is an expandable metal mesh tube that is implanted during angioplasty at the site of the blockage.) Israel has a solid reputation for the innovative design of stents. Medtronic, Boston Scientific are just two of the American giants that use Israeli designed or produced stents. Medinol, the Jerusalem based company which supplies Boston Scientific, is valued anywhere between \$2.0-\$8.0 billion. At least two other companies are developing or producing stents locally. One of these is BCT, which has developed a device under the guidance of Ukrainian-born scientist, Valerian Vinov, a 65-year-old native of Ukraine, a specialist in metal engineering and developing medical products. His company is named BCT -Brainwave Cardio Vascular Technology.

Telemedicine Company is Expanding

Card-Guard, which develops telemedicine systems, announced that it is acquiring all of the assets and business of Quality Diagnostic Services, Matria Healthcare, Inc. (NASDAQ: MATR) Inc. ("QDS"), a subsidiary specializing in cardiac diagnostic monitoring. Card-Guard shares are traded in Zurich at a company value of \$517 million. Since its shares were registered for trading at the end of 1999 their value has appreciated by more than 300 per cent.

The transaction, is expected to be completed on or about February 1, 2001 for a cash price of \$18 million.

2000 was Record Year for Electronics & Data Industry

The year 2000 was the best for the Israeli electronics and data industry since its birth in the 50s, according to Ami Arel, president of the Electronics Industries Association.

Arel said exports in electronics and software grew 50 percent from 1999 to a total of \$13 billion. Sales in the industry were also up 50 percent at \$15 billion, he said. Last year's figures reveal that the most significant growth was in the field of electronic components, for which exports were up 150 percent from 1999, and totaled \$2.7 billion.

According to Arel, the Intel plant in Kiryat Gat was responsible for \$1 billion of the increase, with the Vishay Israel factories contributing \$0.5 billion to the rise in exports last year.

Exports of non-military equipment grew from 20 percent 15 years ago to 90 percent today. Security exports increased by only 2 percent and amounted to \$1.2 billion. "This is a major achievement in view of falling sales of military and security equipment around the world," Arel said.

Exports of communications equipment, industrial medical goods and software also increased last year, climbing 40-50 percent in relation to 1999. Some 38 percent of the exports in the electronics industry goes to North America; 37 percent is bound for Europe; 20 percent for Asia; and the remainder for the rest of the world.

Arel called on the government to increase the state budget for research and development, which, he said, was essential in order to keep the Israeli high-tech industry at the forefront of international technology and for allowing it to grow.

Tower Semiconductor Completes \$1.0 billion Financing for New Plant

Idan Ofer, Chairman of both Tower's board and of its parent company, the Israel Corporation, announced that Tower Semiconductor has signed an agreement with Bank Leumi and Bank Hapoalim, Israel's two largest banks, to

secure \$550 million bank credit line for the construction of Tower's new wafer fabrication plant (Fab 2) in Migdal Ha'emek. With each bank providing \$275 million in credit, the company has secured the \$1.1 billion needed to set up the new chip plant. "Total cost will be \$1.5 billion, but \$1.1 billion was the benchmark for going ahead with the plan", Yoav Nissan-Cohen, Tower's Co-Chief Executive Officer said. Tower has already entered strategic alliances with SanDisk Corporation, Alliance Semiconductor and Macronix International, each of which is to invest \$75 million in Fab 2, in return for 10 equity and committed production capacity.

Tower also signed an agreement with QuickLogic Corporation for a \$25 million investment, and the Israel Corporation, Tower's parent company, has committed to a \$50 million investment. The company will also receive a \$250 million grant from the Industry and Trade Ministry's Investment Center. Thanks to these commitments Tower can go ahead with the new plant and will not have to raise more money until 2003, Nissan-Cohen said. However, negotiations are already underway with financial and strategic investors in Israel and in the US for future investments of another \$100-\$200 million.

The new plant will employ approximately 1,000 professionals and produce up to 33,000 200-mm wafers per month in geometries of 0.18 micron and below. They will use advanced CMOS technology from Toshiba - Tower has signed a technology transfer agreement with the company in March 2000. Tower has started detailed design, employee recruiting, and technology transfer for Fab 2.

It expects to begin construction in the coming weeks. Production is planned to start in the latter half of 2002 and reach full capacity two years later. Tower Semiconductor Ltd. is a wafer manufacturer focused on advanced Flash memory and CMOS Image Sensor technologies.

Tower provides manufacturing and turnkey services for integrated circuits (IC) on silicon wafers in geometries from 1.0 to 0.35 microns.

Vishay Investments in Israel at \$500 million as Exports Soar \$700 million in 2000

Vishay Israel's exports grew from \$280 million in 1999 to \$700 million in 2000, stated Vishay Israel's President Marc Zandman. Vishay Israel is a subsidiary of the American multi-national and Fortune 500 Vishay Intertechnology Inc. The Israeli subsidiary manufactures resistors, capacitors and inductors, mostly for export to the U.S., Asia and Europe. These elements are integrated into appliances such as telephones, automobiles and computers. In the year 2000 Vishay invested \$70 million in Israel, bringing its total investment in the country to date to \$500 million, with another \$500 million of investment planned. The local subsidiary has a payroll of about 5,000, and intends to hire another 4,000 workers.

Vishay Intertechnology Inc. is traded on Wall Street. Its annual turnover in 2000 was \$2.5 billion. Vishay is one of the largest manufacturers of passive components and semiconductors. The company has more than 22,000 employees in 64 locations in the US, Germany, Austria, Britain, France, Portugal, the Czech Republic, Hungary, Israel, Taiwan, China and the Philippines. Vishay Intertechnology has recently published a profit warning for the fourth quarter of 2000. As yet, the current slowdown in the electronic components market has not affected the strategy of either Vishay Intertechnology or its Israeli subsidiary, Zandman said.

Amdocs to Build Plant in Development Town

Amdocs, a leading Israeli company announced it would move ahead with plans to set up a software house in the Negev town

How the Global Individual Investor Can Capitalize on Israel's High-Tech Boom

UPDATE

TASE Publicly Traded Venture Capital Companies

Results for the individual companies

Sadot	- 4.1 %*
Teuza	+ 7.3 %*
Marathon	- 12.1 %*
Mofet	+ 0.6 %*
Inventech	- 18.0 %*
Tamir Cap	+ 5.6 %*

* Yields Year to Date and as of January 22, 2001

The Tel-Aviv Stock Exchange publicly traded venture capital companies have not had the benefit of a Nasdaq rally, of the type seen in the US in mid-January. Neither has the Bank of Israel Governor shown any signs of aggressively reducing Israel's prime rate of interest. Moreover, the security situation and the political uncertainty related to February 6 elections for prime minister, have added to the negatives and are weighing heavily on equity prices..



Moreover, we have often noted that there is a correlation between the level of activity on the US Initial Public Offering market and the performance of the above issues. The US IPO market which allows vc companies to cash out is temporarily dormant.

However, true net asset values figures, a statistic not readily made available except to those who read the quarterly reports, create a positive picture when compared to their market price. At the present time the sector is an interesting longer-term investment. Yet, should some of the above mentioned negatives change a sharp rally is a distinct possibility.

of Sderot, without waiting for a government tender offering special financial incentives to winning companies. Amdocs officials have stated that if the company wins the tender, it will invest the special government grant to improve technical education in the southern region, including at the region's Sapir College. The special incentive grant for which companies

are to bid could amount to as much as NIS 60 million over 10 years. Amdocs plans to set up a software facility in the industrial zone of Sha'ar Hanegev, near Sderot, employing 500 programmers and software engineers.

Internet Warfare.....

Beirut Website Knocked Out

Hackers have attacked the website of a Lebanese Internet company in apparent retaliation for its role in servicing Hezbollah's al-Manar television, its director said.

The website of Destination, the Internet network division of ITX, a Beirut-based information technology company, was vandalised for more than six hours on Thursday before the company managed to restore regular service.

"It was clear that the hackers wanted us to know they were Israelis because usually hackers clean up their traces after they vandalise a site, but they did not," stated Mugraby ITX General Manager. Al-



The above message appeared on the Lebanese website

Manar TV, which provides detailed information and news on Hezbollah's policies and guerrillas attacks against Israeli troops along the borders, is one of the most vocal media organizations supporting the Palestinian Intifada.

It shows footage of Israeli soldiers beating Palestinian civilians and calls for a violent Palestinian response, citing Hezbollah's successful war of attrition that forced Israel out of south Lebanon last year after a 22-year occupation.

Ofir Rahum: First Terrorist Lynch-victim by Internet

A 25 year old East Jerusalem Palestinian journalist, was arrested on suspicion of the intense use of "chat" with erotic content on the Internet, as bait to entice a 16-year old Israeli schoolboy Ofir Rahum into the hands of those responsible for his murder. The suspect was traced and apprehended as the result of sophisticated decoding of the victim's computer.

The \$1.0 Millennium Portfolio is Fully Invested

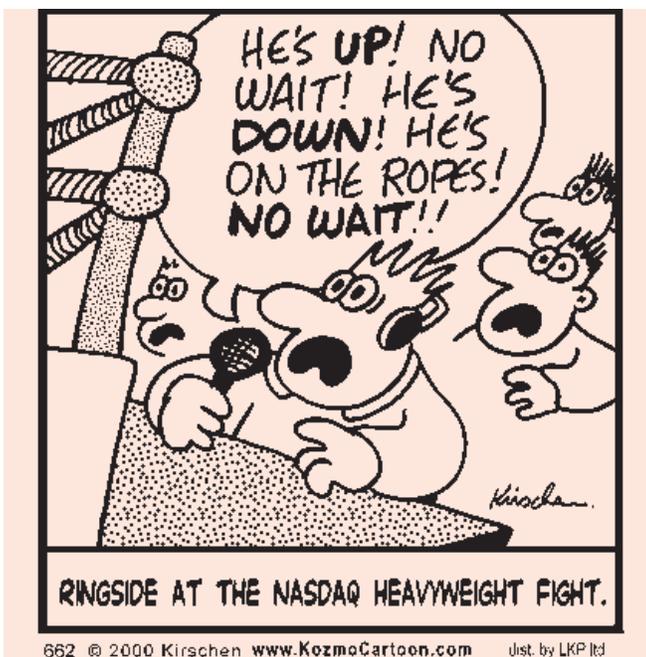
On November 20 last year we cashed out our IHTIR Model Portfolio and realized \$678,540. This amount included a profit of \$431,690 or up 174.9% since the Portfolio's inception in January 1999. One of the issues was related to the market itself. We were bearish on the prospects of the Nasdaq which had been brutalized since April 2000. Eventually by the end of the calendar year 2000 the Nasdaq had suffered an all-time one year record loss of 39%. Another factor was that our holding in CheckPoint had ballooned to nearly 55% of the total value of the IHTIR Model Portfolio. We are market contrarians! We listened to pundits' cries that the Nasdaq was still overvalued. However, as 2000 was ending on a sour stock market note, we became convinced that Nasdaq was oversold. No one proclaimed this but we noticed that the Dow Jones, by contrast, at that point, was only 10% below its yearly high. As the new president of the United States was hastily putting together his government, econo-

mists issued warnings that the US was heading for a recession, which could result in a none too soft landing. We incorrectly anticipated that US Fed Chief Alan Greenspan would wait towards the end of January to announce a cut in interest rates. We did believe that the Bush Administration would have the political will to prevent a recession. A recession would be a disastrous start for the new President. He would promote further interest rate reductions and tax cuts, we reasoned. Both of these are traditional strong stimulants to the American stock markets. If we waited for this scenario to develop the market will have by then factored in the interest rates. By then it would be time to sell out. We patiently listened to the advisors in the private banking community who counselled "to wait until mid 2001" before even starting to think of looking at the Nasdaq. We figured that the smart money will come in early and leave, as the less sophisticated come in, as usual, near the top. So on January 2 we invested \$1.0 million in our new portfolio. The distribution in this newly launched Millennium Israel High-Tech Model Portfolio reflected our belief in company specific issues.

We continue to believe that Check Point Software Technologies and Converse Technology are the soundest of the Israeli or Israeli related companies. Both have experience and appear poised to maintain explosive earnings growth. In looking back almost exactly a year ago Check-Point was at \$183, or just under \$46 adjusted to two stock splits in calendar 2000. We paid \$110.50 a share. Back in October Check Point traded at its 12 month high of nearly \$178. Converse had traded as high as \$124. We paid \$91.

Our conviction leads to a 25% allocation of assets in our portfolio to each of these two companies. \$250 K was employed in establishing each position. The shares of the remaining five choices were allocated 10% each or \$100K per position.

continued on p 12



ISRAEL HIGH-TECH MODEL MILLENNIUM PORTFOLIO

Date	B/SS	Quantity	Price	Commission	Open Amount	Current Value	Gain/Loss
Millennium Portfolio							
AudioCodes Ltd.							
1/2/2001		9,350	AUDC 10.703		Price as of 1/19/2001 : 16.125 \$0.00 \$100,073.05	\$150,768.75	\$50,695.70
Total:		9,350			\$0.00 \$100,073.05	\$150,768.75	\$50,695.70
BreezeCom							
1/2/2001		8,300	BRZE 12.0629		Price as of 1/19/2001 : 14.814 \$0.00 \$100,122.07	\$122,956.20	\$22,834.13
Total:		8,300			\$0.00 \$100,122.07	\$122,956.20	\$22,834.13
Check Point Software Tech							
1/2/2001		2,300	CHKP 110.50		Price as of 1/19/2001 : 149.813 \$0.00 \$254,150.00	\$344,569.90	\$90,419.90
Total:		2,300			\$0.00 \$254,150.00	\$344,569.90	\$90,419.90
Comverse Technology, Inc.							
1/2/2001		2,700	CMVT 91.063		Price as of 1/19/2001 : 113.688 \$0.00 \$245,870.10	\$306,957.60	\$61,087.50
Total:		2,700			\$0.00 \$245,870.10	\$306,957.60	\$61,087.50
Orbotech Ltd.							
1/2/2001		3,000	ORBK 34.687		Price as of 1/19/2001 : 49.625 \$0.00 \$104,061.00	\$148,875.00	\$44,814.00
Total:		3,000			\$0.00 \$104,061.00	\$148,875.00	\$44,814.00
Precise Software							
1/2/2001		4,300	PRSE 22.375		Price as of 1/19/2001 : 19.50 \$0.00 \$96,212.50	\$83,850.00	(\$12,362.50)
Total:		4,300			\$0.00 \$96,212.50	\$83,850.00	(\$12,362.50)
Retalix Ltd.							
1/2/2001		10,200	RTLX 9.75		Price as of 1/19/2001 : 11.625 \$0.00 \$99,450.00	\$118,575.00	\$19,125.00
Total:		10,200			\$0.00 \$99,450.00	\$118,575.00	\$19,125.00
Millennium Portfolio							
					\$0.00 \$999,938.72	\$1,276,552.45	\$276,613.73

A Powerful Upward Move: The Millennium Portfolio Soars by 27.6%

ECONOMIC REVIEW FOR 2000

Rapid Growth in 2000

GDP climbed 5.9% in 2000. The Gross Domestic Product rose last year by 5.9 percent and totaled NIS 444.989 billion shekels (some \$110 billion), according to figures just released by the Central Bureau of Statistics. In 1999, the economy grew 2.3 percent. The commercial GDP increased even more markedly in 2000, climbing 7.7 percent compared to 2 percent in 1999. The sharp rise in GDP for 2000 reflected rapid growth during the first three quarters, coupled with a fall in the fourth quarter due to the political instability. The violence in the territories and Israel affected the economic figures for October and November, although a slowdown in growth was already discernible in the third quarter. Investments in start-up companies enjoyed a boom during the first three quarters of 2000. On the other hand, the upswing in sales of durable goods continued toward the end of 2000, and domestic tourism recorded an impressive rise in November after the drastic slump in October. Per capita GDP - which reflects the standard of living - reached \$17,000 in 2000, a new record and an increase of 3.4 percent over 1999. The standard of living in 1999 dropped 0.2 percent and remained unchanged in 1998. The rise in the standard of living in 2000 provides a solid foundation for Israel on the list of industrialized nations. Contributing to the increase in the standard of living in 2000 was a 16.6 percent increase in the acquisition of durable goods, including a 23.2 percent rise in the purchase of private cars. Industry in 2000 grew by 10.3 percent, as opposed to an increase of only 1.2 percent in 1999, with the field of high-tech experiencing a particularly high growth rate. The GDP in the fields of trade and services increased last year by 10-12 percent. The number of employees in the economy increased in 2000 by 4.1 percent, exceeding the population growth rate of 2.4 percent. As a result, the civilian work force grew last year from 53.8 percent of the general adult population to 54.6 percent. Unemployment fell by 0.1 percent to a rate of 8.8 percent - higher than the accepted rates in

developed countries, countries belonging to the Organization for Economic Cooperation and Development and countries of the European Union. Imports of goods and services increased last year by 12.2 percent, with exports rising even more markedly - 22.7 percent - primarily in the high-tech industry. Excluding start-ups, exports in 2000 increased by 18.1 percent. Industrial exports showed impressive growth last year, climbing 25.4 percent in relation to an increase of 7.2 percent in 1999. The sharp increase in exports as opposed to imports contributed to a drop in the trade and services deficit, from \$2.9 billion in 1999 to \$0.7 billion in 2000.

D&B: Israel Retains Low Risk Rating

Despite a negative impact expected on the Israeli economy in 2001 because of the political instability, in their January 2001 report, Dun & Bradstreet International gave Israel a risk rating of DB2C, only a slightly inferior rating than its previous DB2 indicator. A DB1 rating is the lowest risk indicator issued by the company. The optimism that characterized the beginning of the era of young Israeli leaders - Benjamin Netanyahu and Ehud Barak - has faded, the company wrote in its January 2001 report. The lack of political stability, coupled with the continuation of the violence in the territories, will perpetuate the economic instability, economists at D&B said. Nevertheless, in light of the liberal economic policies of the two major political parties - Labor and Likud - D&B does not foresee changes to the central trends in the Israeli economy, such as privatization, investments, price stability and an increase in exports, the report said. According to the compilers of the report, exports of goods and services will shrink during the first half of this year, along with the local demand. The report also foresees an increase in unemployment in traditional sectors such as agriculture. The company's report determines that Israel's Gross National Product in 2001 will grow by 4.1 percent, with a further 4.2 percent increase expected in 2002; inflation this year will be 1.3 percent, with a rate of 1.4 percent predicted for 2002; unemployment is expected to reach 8.2 percent in 2001.