

BY STEPHEN BRENNAN

# The Flip Side

WITH THE FIRST COUPLE OF MONTHS OF 2003 behind us, I am struck by how much this year feels like the flip side of 2000. Remember 2000? Expectations were sky high and optimism reigned. Today, pessimism is widespread. In 2000 affluence and exuberance were all around and the preceding years had been better than expected. Now we are coming out of a recession that few expected and there are worries of a double-dip recession. Of course, 2000 saw the Nasdaq break above 5,000 points in March based on all that optimism, only to finish the year below 2,500.

## BEARISH THEN, BULLISH NOW

So far 2003 is off to a start just as rocky as 2000 was robust, and I expect that the stock market will finish with a year-end performance as historically strong as 2000's was awful. Three years ago technology optimism led to semiconductor and other tech stocks leading the market lower. Currently, I believe pessimism will help them lead the market higher. Not only do I like tech and chip stocks, but I am now going to modify my January recommendations by suggesting

The secret to beating the stock market is not finding out what everyone else knows, but figuring out what they are missing.

Internet stocks (HHH) in lieu of Basic Materials (XLB) and small cap growth stocks (IWO) in place of small cap stocks (IWM). I say all this knowing that my confidence will be greeted with skepticism if not downright disdain. To be honest, it would worry me if it was otherwise – it's hard for stocks to surprise on the upside when folks expect upside. In early 2000 I could not even convince some family members to unload their technology stocks, such was the general consensus that the technology boom was just getting started.

Today I am happy to report that folks still look at me like I must be crazy – only now for being bullish in a weak economy, where international dangers abound. Yet, I am not blind to our problems; rather, I would argue, I see them quite clearly. In fact, my March column of last year focused on the potential of a double-dip recession, when most economists were of the opinion we had only seen a single quarter of mild negative GDP growth and were on our way to a strong

recovery. My worries were based largely on the fact that the typical economic cycle sees weakness after an initial inventory rebuild period and five of the last seven preceding recessions had followed this pattern. To be a good investor you don't need to be a genius. You just need to do a lot of homework and be willing to champion unpopular opinions. The secret to beating the stock market is not finding out what everyone else knows, but figuring out what they are missing.

## IT'S WHAT YOU DON'T SEE...

In early 2000 everyone knew the economy was strong, the international situation peaceful and the potential of new technologies was great. As for the economy, people were not noticing the newly constrictive monetary policy and unsustainable corporate spending levels. On the international stage few folks cared that Iraq and North Korea were pursuing WMD programs, while al-Qaeda was active and growing stronger. Nor were many concerned about the outlandish valuations accorded companies whether or not they had truly compelling technologies. However, as is always the case in the stock market, it was what they didn't see that ended up moving the market.

Contrarian gap analysis involves finding the gaps in consensus opinions and then using historical and macro-economic analysis to identify the most likely outcome. Today, people can plainly see a lot of negatives, but they are missing important positives. This does not guarantee that there will be surprises on the upside. But it does mean that the stock market is more likely to be surprised with unexpected positive news rather than negative. The market has already priced in a weak economy, lackluster corporate growth, war and terrorism. In early 2000, of course, the market priced in a strong economy, rising corporate growth and a peaceful world. Now there is the chance that 2003 could be worse than expected, just at there was the possibility that 2000 could have been even better than anyone hoped. But the odds, history and, in my opinion, the nature of the economic cycle favor a surprise in the opposite direction of popular opinion. ☞

Stephen Brennan is an investor relations consultant with MCA, a leading Silicon Valley public relations firm, and an advisor to Financia Capital, LLC., a San Francisco based, money management firm. He may be reached at [sbrennan@mcapr.com](mailto:sbrennan@mcapr.com).