

BY STEPHEN BRENNAN

# Go Long in Second Half

BUYING STOCKS AT A MARKET BOTTOM requires nerves of steel, so take a deep breath and a good look for some compelling opportunities. As I write this article at the end of June, matters could not look more negative. Indeed, my expectation is that they are going to get even worse, thus creating a great buying opportunity. My bearishness, especially on technology and semiconductor stocks, has been well-documented in this column, as has my view that a true bull market rally should see all the major indices and the exchange traded funds (ETF's) that track them – S&P 500 (SPY), Dow Jones (DIA) and Nasdaq (QQQ) – trade above their 200-day averages.

Along with the 200-day averages, I'm keeping an eye on other important indicators. When it comes to semiconductor stocks, I want to see the SOX index find support above either 300 points or 350 points and then climb more than 50 points higher. With the SPY, look for it to break and remain above its 50-day moving average and then its 200-day. Is this a flip-flop with my running bearishness? Nope. To quote my March column, "I expect the S&P 500 to be flat for the year as the performance of the economy confounds many, and the semiconductor sector shows no real signs of strength in the second half." At this point a tough second half has been priced into the stocks and the S&P 500 needs a powerful rally to get anywhere near even by year-end.

## A BETTER 2003

Despite all the bad news and even my own concerns about a double-dip recession, I believe the stock market will begin "pricing-in" a better 2003. The market is a great leading indicator of where the economy will be about five months ahead. One can quibble about the definition of a recession, but the market is clearly predicting a double-dip earnings recession at this time. However, the economy has more near-term strength than some realize. A key barometer is corporate hiring, and the best leading indicator here is layoffs, which are down noticeably. A better 2003 will show up in rising stock prices as early as August, even if the rest of 2002 is still rough.

There is no guarantee the market will turn around before September, but by historical standards this is already a long bear market and it is due to end very soon. I'll be keeping a close eye on the months of July and August for a market bottom that I believe is extremely likely. Have I given up on my concerns that we are in a secular bear market? Not at all. But the



doomsayers who talk about bear markets forget to mention the powerful bull markets that occur within them. Both the deflation-propelled secular bear markets of the U.S. in the '30s and Japan in the '90s experienced bull markets that lasted more than a year and saw stock prices double before sliding back into subsequent bear markets.

## SEMI, TECH AND OTHER BUYS

Semiconductor stocks (SMH) should represent excellent buying opportunities at a market bottom. The sector is well-poised to benefit from a pickup in economic growth. Other technology sectors that are getting beaten up – like networking (IGN), software (SWH) and broadband (BDH) – also are worth looking into as investments. Remember that consumer spending is unlikely to strengthen much given how well it has held up, so look to the sectors that will benefit from renewed corporate demand.

True bull markets historically see small-cap out-performance along with international participation. So also take a look at the Russell 2000 Small Cap Index (IWM), the Russell Small Cap Value Index (IWN), the Eurozone (EZU) and Japan (EWJ), along with a broad U.S. index like the S&P 500. The U.S. has driven the global economy. As a result exporters in Europe and Japan should benefit from any pickup. Also the current trend of a reversal of international investment out of the U.S. and into Europe and Japan favors these stock markets. ☺

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