

# THE GOOD, THE BAD, THE LUCKY

WITH 2003 NOW BEHIND US, THE TIME HAS once again come to evaluate my forecasting track record. After all, how else are you going to know if the advice in this column is worth the paper it is printed on? For the second full year since I started doing this I am happy to report that my advice was indeed worth the cost of this glossy paper. That doesn't mean there wasn't a prediction or two well worth throwing out. I had a couple that belonged at the bottom of birdcages. But on the whole, the advice of this column was either very good or very lucky, stacks up strongly against other market forecasters and was extremely profitable for those that followed it.

## THE BOTTOM LINE

Let's start off with what matters most when it comes to my investment recommendations. Calculating the performance of each recommended position from the first of the month of the column in which I recommended it results in an return of more than 47 percent for 2003 (not including any trading costs involved in buying or selling these positions). By way of comparison, the stock market as measured by the S&P 500 index rose just over 26 percent for the year. There were a several big decisions that resulted in this strong performance. First, after being bearish for much of 2002, I remained bullish on stocks throughout 2003 despite fears of war and disease. Second, I recommended a heavy weighting of technology stocks with positions in semiconductors (SMH), software (SWH), biotech (BBH), broadband (BDH) and, in April, the addition of Internet (HHH) stocks. Half the final recommendations in this column last year were focused on the beaten-up technology sector. Thirdly, also in April, I recommended small-cap growth stocks (IWO). Technology stocks and small growth stocks were some of the strongest performers. Lastly, I favored foreign stocks in the Eurozone (EZU) and Japan (EWJ), which also turned in strong performance.

## THE NOT SO GOOD

The problem with writing an investment column is that people can look up your mistakes. Although my record was good, it was far from perfect. The biggest miss was my February prediction that the S&P 500 would rise by more than 40 percent in 2003. I based this partly on historical results after multi-year bear markets, but it turned out to be the technology-heavy NASDAQ and

small-cap weighted Russell index that turned in 40-plus percent returns for the year. My exposure to technology and small stocks helped my returns, but two of my column recommendations were of no help. My position in utility stocks (XLU) lagged the S&P 500 by a bit. But it was my telecommunications (TTH) recommendation that was really disappointing, as it barely finished positive for the year.

## THE UPTURN PREDICTION

Finally, in my December 2002 column I predicted the semiconductor industry would likely see an upturn begin in the second quarter of 2003. My accuracy on this one is a bit open to interpretation. Dan Hutcheson of VLSI Research dates the industry upturn as beginning in May, right in the middle of the second quarter, as leading indicators began to turn up. SEMI's three-month sequential billings data turned positive in July, one month after the second quarter, as billings turned up and kept climbing. Of course, it was not until the end of the year that many people really began to believe an upturn was finally here for the worldwide semiconductor industry. I'll leave it to the reader to judge my accuracy on this one.

Like last year, my investment recommendations easily outperformed the stock market, and like last year I was off the mark when it came to predicting where the S&P 500 would finish the year. To prove that I can't take a hint I am going to end this column by predicting where the broad stock market will finish for 2004. My expectation is that it will be another good year for stocks with the S&P 500 posting around an 18 percent return. After having such a good year with my technology and small growth stock exposure, I am keeping a close eye on these continuing recommendations and will likely replace my small cap position with larger stocks at some point in the near future. I do not expect a repeat by the Russell small cap index of its 2003 performance this year. On the other hand, I expect this bull has much further to run and investors can expect another year of positive performance from the stock market. ☺

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