

by Stephen Brennan

Using SOX to Measure Industry Performance

Owni ng semiconductor stocks is nothing if not exciting. Since 1999 the semiconductor sector has been on a wild roller coaster ride with the steepest upturn in its history followed by the deepest downturn. The single best way to track this wild ride and compare it with individual semiconductor stocks is the Philadelphia Semiconductor Index (SOX).

MEASURING PERFORMANCE

To understand how individual semiconductor stocks are performing, compare them with the SOX. In 2000 a stock like AMD (AMD) that fell by eight percent managed to significantly outperform the industry as the SOX dropped by 19 percent. On the other hand, there was nothing to brag about for an Intel (INTC) shareholder when its stock rose by 37 percent in 1999, while the SOX nearly doubled. Yet this does not mean AMD has historically been a better bet. An investor who owned both Intel and AMD for five years from 1996 until the end of 2000 would have almost matched the 200 percent return of the SOX, with Intel rising about 316 percent and AMD returning approximately 59 percent.

Although there can be substantial performance differences between semiconductor stocks, many investors are surprised at how closely the stocks of individual semiconductor companies often mirror the price behavior of the SOX. At the time of this writing, for example, the 2001 price-performance difference between Netherlands-based ASM Lithography (ASML) and Cymer (CYMI), a domestic small-cap stock – neither of which are members of the SOX – was less than five percent when compared with the Philadelphia Semiconductor Index. The stock prices of both ASML and Cymer were similarly impacted by the broad-based industry downturn.

SOX MECHANICS

The reason why the SOX makes such a good benchmark is that it is made up of 16 bellwether companies that span the semiconductor industry: Texas Instruments (TXN), Applied Materials (AMAT), Micron Technology (MU), Xilinx (XLNX), LSI Logic (LSI), Teradyne (TER), Altera (ALTR), Linear Technology (LLTC), National

Semiconductor (NSM), KLA-Tencor (KLAC), Novellus (NVLS), Lattice Semiconductor (LSCC), Motorola (MOT), Rambus (RMBS), Intel and AMD. One of the easiest ways to track semiconductor stocks versus the SOX is in the 'Money' section of msn.com. In the ticker field enter '\$sox.x' and click on the 'Charts' function. Then select time periods and add the tickers of the semiconductor stocks you want to benchmark.

TECHNICAL INDICATORS

Glancing at a three-year daily price chart of the SOX, you will notice some important price points for the index. The index has an especially difficult time sustaining a rise above or a drop below the price levels of about 285, 400, 540 and 700 points for instance. In the past investors have viewed these price levels as an opportunity to take profits in a rising market or to minimize losses in a falling one. A strong rally will rise above such psychological "resistance" levels, while a powerful sell-off will drop below these "support" levels. Sometimes a market neither rallies nor sells off. A good example of this is December 2000-August 2001. During these nine months, the SOX traded mostly in a price range between 540 and 700 with only one sustained breakout – a spike down to 491 last March.

An investor following these technical indicators would have realized in December 2000 that the index had found support at around 540, even while the Nasdaq was still falling. They would have greeted with skepticism the media stories of semiconductor rallies or sell-offs, which at most were nothing more than full retracements in a sideways-moving sector. Informed investors would have noted the September spike down as a sign of potential weakness and watched carefully as the subsequent October 2001 sell-off proved unable to stay below the critical 400 support level and began to rally up. Going forward they would continue to take note of such resistance or support levels when gauging the strength of a semiconductor market move. ■



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