

BY STEPHEN BRENNAN

Year of the Bull

POWERFUL FORCES ARE LINING UP TO make 2003 a great year for stocks. First, the necessary fuel for a bull market is present in large quantities – cash on the sidelines and depressed prices. Second, there are overlooked signs of sustainable growth – the spark alighting this fuel. Finally, historical trends bode well for 2003.

CLIMBING A WALL OF WORRY

The guidance coming out of companies today is conservative. Economic data that looks back on September and October is bearish. Analysts who previously couldn't be optimistic enough that the recovery was around the corner now are cautious. Good. We are seeing the low expectations that shift the odds to stocks surprising on the upside. Growth signs are positive: productivity continues to be strong, the critical housing sector keeps powering ahead, and employment has stabilized. Further, a Manpower hiring survey, a G7 Group business investment survey and separate recent retail spending surveys all predict improvement on the upside.

JUST ANOTHER CYCLE

The economic slowdown in 2002 should not have been a surprise to those who study history. As I stated in my March column, five of the last six recessions were double dips where strength from inventory build-ups faded into sudden weakness. The nature of typical economic cycles, however, also makes me optimistic about 2003. The semiconductor cycle bottom is typically marked with pessimism on the future of the industry and low expectations for the near term, which are the moods of the moment. Exceptionally lean inventories and tight cost structures in many types of companies are the result of similar moods, and as a result it won't take much demand from a recovering economy to send profits skyrocketing.

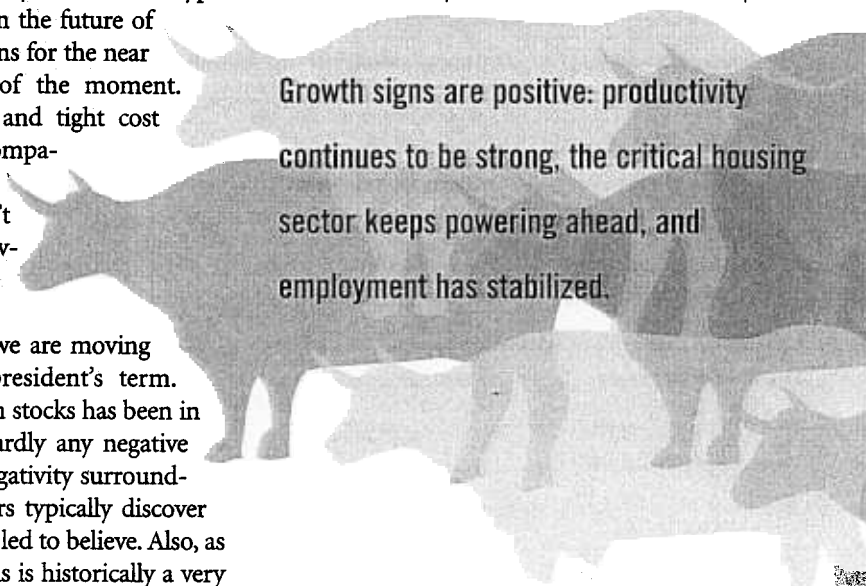
Turning to another cycle, we are moving into the second half of a president's term. Historically the best time to own stocks has been in a president's third year with hardly any negative years. Emerging from all the negativity surrounding mid-term elections, investors typically discover things aren't as bad as they were led to believe. Also, as stated in the August column, this is historically a very

long bear market. The marathon 1929-32 bear market lasted 33 months from its high, while the current bear will have run for 30 months if October marked a final bottom. Prior to 2000 there have been only three multi-year bear markets since the turn of the century: 1929-32, 1939-41 and 1973-74, with an average gain of almost 40 percent in the year following the bottom.

2003 OUTLOOK

My current expectation is that the S&P 500 will easily post a double-digit percentage gain in 2003. I still expect both technology and small-cap stocks to outperform the broad market. I also believe that Japan will surprise folks with strong performance over the long term. So, I am going to tweak my previous recommendations slightly. Sector, style and country exchange traded funds (ETFs) I like for 2003 include small cap (IWM), semiconductors (SMH), software (SWH), biotech (BBH), broadband (BDH), telecom (TTH), materials (XLB), utilities (XLU), the Eurozone (EZU) and Japan (EWJ). The forecasting record of this column is certainly strong enough to consider these suggestions, but readers should remember to pick the investments that suit their needs and to always perform their due diligence because, as we all know, only hindsight is perfect. ☺

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