

About the Timing

AT THE START OF THIS YEAR I RECOMMENDED selling Internet stocks, because sentiment and investors' expectations had risen too high in my estimation. My timing couldn't have been much better. As I write this column at the end of April, the Internet HOLDERS – a security that tracks the performance of several leading Internet companies, including eBay, Yahoo, and Amazon.com – is down over 25 percent. These stocks have fallen much harder than the broad stock market, which has declined about five percent during the same period. What is even better for my ego is that I recommended owning Internet stocks last year, capturing a return in excess of 40 percent.

Unfortunately, the timing on some of my other calls has not been nearly as good. I recommended getting back into semiconductor stocks way too soon last year after making a good call on when to get out of them. Although semis are the best-performing technology sector year-to-date, my technology-heavy portfolio is not doing very well so far in 2005. To my credit, I've gotten more right than wrong since I started writing this column in 2001, but I will be the first to admit that my timing has not always been perfect in the past, and it won't always be in the future. That is investing, and a big reason why you always want to have some amount of diversification in your portfolio.

BETTER EARLY THAN NEVER

Last year I predicted that technology stocks in general had one more robust rally ahead of them and that semiconductor companies in particular were poised for a strong upturn. A strong performance in the fourth quarter appeared to vindicate my stock market view, but the sharp sell-off in tech stocks thus far this year makes it clear that I was at best very early and at worst flat-out wrong. As much as I'd like to have a second chance with the timing of both predictions, the fact is that nothing has changed to impact my original analysis favoring a strong, sustained tech rally. In addition, the underlying supply and demand conditions in the chip industry are also more encouraging than they've been in quite a while. So I am staying with my tech-heavy portfolio and my semiconductor position. By the end of this year it should be clear if I was early or just plain wrong.

While I am on the subject of timing, I'd like to modify the prediction I made last year that the real-estate market peak would likely occur around 2006. Although I would not be surprised to see the start of a

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rolling-top in my original time-frame, a truly painful decline might not begin until as late as 2008.

PEARLS OF WISDOM

Investors tend to worry too much about trying to time the market exactly. My advice is to check your ego at the door and measure your portfolio's returns in years, rather than weeks and months. Perhaps nothing illustrates this better than what I consider to be my biggest market-timing blunder: boldly declaring in July of 2002 that the bear market had ended. I was three months early (and those three months were a difficult time to be in stocks). But while it was disconcerting to watch the market continue to fall after having called a bottom, I saw nothing to indicate that my basic reasoning was flawed. So I stuck with it, and as I write this column the NASDAQ is 50 percent higher than it was back then. As an investor, you have to accept the fact that your timing will never be perfect – and on those rare occasions when it is, luck is doubtless more responsible than skill.

The revered "Oracle of Omaha," Warren Buffet, once said, "Be greedy when others are fearful, and fearful when others are greedy." This pearl of wisdom will probably serve you better than anything I can write, and as you put together your own forecast for stocks, ask yourself if fear or greed dominates today's market. The answer seems clear to me as I write this column during April's stock market sell-off. In my view a strong, sustained rally led by tech stocks is now around the corner, and by the time you read this, we should know if I timed this well. ☺

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