

by Stephen Brennan

## Reality Check on Predictions

It's hard to find useful information about the stock market and the business of technology. Of course, this column is intended to supply just that. But we all know that good intentions aren't worth the paper they're written on. It's time to evaluate the usefulness of this column by examining last year's Market Watch articles. After that, I'll stick my neck out again and make a few more predictions.

### TELECOMS STILL WON'T RECOVER SOON

In my first column that appeared in October, I scored easy points by offering some straightforward but accurate advice that remains true. Then, as now, the telecommunications sector does not look like it will recover anytime soon, and the semiconductor industry will not have a strong recovery without telecom demand picking up again.

In late January, both JDS Uniphase and Corning revised downward some of their already dour expectations. Make no mistake, 2002 will be a tough year for telecom and semiconductor companies. I also urged readers to take note of retail spending, auto sales and the housing market. When the anomalous time period around September 11 is factored out, all these indicators remained strong heading into the holidays, where consumer electronic sales were not as awful as some had feared.

### HITS AND MISSES

My predictions for December included some of my best and worst calls. In November, I forecast extremely heavy retail discounting. I was way ahead of the curve in getting this right, especially considering my September deadline for that article. However, I was significantly off on my timing for a market sell-off. A final leg down for semiconductor and other stocks, which I predicted, did not come in December. Turning to consumer electronic sales, my predictions produced mixed results. PC purchases were stronger than I expected, but my calls for other device sales, including that for strong game-console sales, were pretty good. However, a strong upsurge in purchases of DVD players resulted in better overall holiday sales than I expected. I should have paid more heed to my own advice to also watch autos and homes, which were strong going into December.

Some of my biggest claims have yet to be proven right or wrong. In December, I also stuck my neck way out by predicting that the industry upturn would begin in the third quarter of 2002. I still believe it will not come any earlier than the third

quarter, but I am now worried that the upturn could come later. Although most economists have predicted a recovery in the first quarter of 2002 – which would spur demand for semiconductors – I now believe the odds are very good that we will experience a double-dip recession. Despite one version passing the U.S. House and another version having the votes to pass the Senate, the compromise fiscal stimulus package (which I was expecting) did not have the votes necessary to call a vote on the Senate floor in December. Without it, this economy may well sputter back into recession just as it's showing signs of recovery.

### ANOTHER TOUGH YEAR

Unfortunately for a semiconductor industry still reeling from a reduction in demand due to the global economic downturn, five of the last six U.S. recessions saw double-dips. So, why expect a contraction in the second quarter, especially after the economy has started growing again due to restocking inventories that were depleted in the fourth quarter? I have three primary reasons: there is little in the way of pent-up consumer demand due to continued spending throughout this recession;

the refinancing trend, which has put money in consumers' pockets despite lower income growth, is now trending down; and consumer and corporate debt levels make greater borrowing an unlikely source to fund a substantial increase in consumption.

After creating economic growth by restocking inventories depleted from discount-driven sales, businesses may subsequently find it even tougher to sell goods, especially high-tech products. My current advice is for semiconductor companies to keep the hatches battened down and for individuals, especially those of us in high tech, to be prepared for continued tough times. I hope I'm wrong and most economists are correct in their predictions of a recovery already underway and a strong up-year in the stock market. On the other hand, 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. If I'm not right, I'll be eating these words in a future column. ■

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