

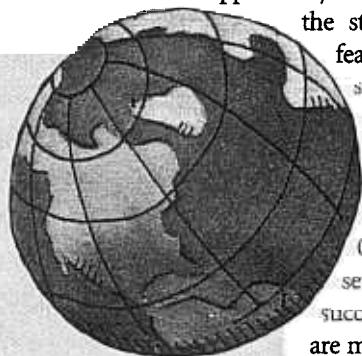
BY STEPHEN BRENNAN

# Don't Worry Now, Worry Later

INVESTORS NEED NOT WORRY ABOUT the impact of a war with Iraq. International tensions will, of course, have short-term impacts on the direction of stock prices – we will very likely see some panic selling this year. But at the moment, everyone and their neighbor knows that the U.S. may go to war in the Middle East. Many people believe that war could make this the fourth consecutive down year for the stock market, which would be the first time this has happened since the Great Depression. Ask yourself, however, when was the last time the stock market performed as everyone expected? How many people are out there now who will sell stocks because of a war and who have not already stayed out of the market for this reason?

## A BUYING OPPORTUNITY

So for now, don't worry about the impact of war on the stock market this year. Treat any panic selling as a buying opportunity. Plenty of people are staying out of the stock market because of their fears. They may get more pessimistic, but they can't sell stocks they no longer own. On the other hand, people on the sidelines can buy stocks when their war fears are put to rest.



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Outcomes such as a negotiated settlement, an internal coup or a successful American military effort are much more likely than a military debacle, and any of these would be a positive development for investors. As a result, don't worry about the impact of war on stocks this year. The stock market will do just fine.

Also don't worry about the impact of war on the economy. I'm not going to make the argument that war is good for the economy, and by extension semiconductor end-demand. But neither will such a conflict in all likelihood be all that bad. A war – if it comes – is likely to be swift and decisive. Historically, such conflicts just do not have that much of an impact on the economy, because there is no time or need to create a “war economy” such as in

World War II. Nor do such wars become a constant drain on the country's fiscal resources. What is more, while energy prices could spike, they have been high for a while (partly because of stockpiling), and signs of a successful resolution would send them lower, helping the global economy.

## IT'S WHAT YOU DON'T SEE....

People should not be worried about a war this year. They should be concerned about the issue few folks are talking about – the costs of a long-term war effort years hence. After all, the war in Vietnam started out small and took years to become a serious problem. A lot of people seem to have forgotten that American soldiers are still in Afghanistan and will likely be there for a while, which could also become the case with Iraq. The U.S. avoided entry into the war against fascism for the first several years of World War II, but that also caught up with us. The risks in a war against terrorism and terrorist sponsors is that despite military victories, we will end up failing to win “hearts and minds” and become entrenched in far-ranging conflicts. But in the stock market world of quarterly earnings, and the politician's world of frequent elections, these are all very distant concerns.

## BULLISH FOR NOW

Given all this I remain bullish as I have since the end of last July, and continue to believe that the July and October double-bottom for the S&P 500 represents a near-term low point from which stocks will continue to rise this year. My expectation remains that technology stocks, including semiconductor stocks, will keep outperforming the broad market. I believe 2003 will be a very good year for those investors with the discipline to stay in stocks. However, for those who have become enamored with bonds recently, I urge caution. So-called “conservative” investments in U.S. treasury securities look very risky at the moment. They are popular, and when securities get too popular they get overpriced. That's not to say we might not see one last hurrah for these securities with more easing by the Fed, but treasuries have become anything but a conservative investment. ☺

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