

by Stephen Brennan

## Semiconductor Stocks Rising?

**S**emiconductor stocks have turned in sizzling performances recently, with the semiconductor stock index (SOX) rising almost 70 percent in the last two calendar quarters. Some investors are wondering if the time has come to get back into the market. Many already have. But if you have not gotten back in, don't kick yourself for missing out on that return. Instead take a closer look at the numbers. Most of that return is the result of coming off the October market bottom. How many people do you know who timed that bottom and rushed to buy semiconductor stocks after the worst terrorist attacks in U.S. history? Not many, because the bottom was caused by folks rushing to sell.

Timing is everything when it comes to trading stocks. Semiconductor stock performance is a lot less impressive when you look at the last three quarters instead of just the last two. The SOX was down almost 5 percent. The performance is even worse if you look at where the index is from its top. From their peak to the end of the second quarter 2002, semiconductor stocks have fallen about 55 percent. Even with that strong performance in the last two quarters, a lot of investors are still looking at losses.

### REVISITING TECHNICALS

So what should you pay attention to when it comes to timing your buying and selling? First, don't think for one moment that you're going to be able to time an absolute bottom. "Catching a falling knife" is the Wall Street metaphor for such an exercise – you're far more likely to get bloody than lucky. But there are important indicators to watch. In my January column I noted four important price levels for the SOX (285, 400, 540 and 700 points), and that the index only witnessed a single recent and sustained breakout to test the 400 support level, due to the September sell-off. After the rally coming off that bottom, the SOX spent this entire first quarter moving up and down – from 500 to 590 and back again – along the 540-point level.

Most of the return for semiconductor stocks in the last quarter came on March 1 when the index broke an established downtrend and rose 56 points on that single day. For the rest

of the quarter, it moved into a sideways consolidation similar to the price pattern pre-September. Judging by that pattern it will be a negative indicator if the index falls to 530 points, now that it has again established itself above that 540 support level. On the other hand, it will be very positive if the index sustains a move above 700. This advice may very well be outdated by

the time this goes to print, but I suggested to one friend buying semiconductor stocks that he try to get in as close to that 540 level as possible and limit downside risk by selling if the SOX moves to 530 points.

### STAYING DEFENSIVE

My outlook remains bearish on the stock market. Even if this view is correct, however, there will still be short-term trading opportunities in sectors like semiconductors. Furthermore, after stating last October that telecoms were not going to get better anytime soon

and restating that in March, I am paying close attention to how much lower some of these stocks can go before hitting a true bottom. Corning (GLW), for example, at under \$7 a share (at the time of this writing) looks a lot more interesting to me now than it ever did at over \$100. I would, however, urge the use of stop-loss orders for anyone aggressively investing a small amount in such stocks.

If I'm wrong in my negative view on the economy, some of the telecoms could get a nice bounce. It never hurts to hedge your bets a bit. If I'm right, stocks like semiconductors and homebuilders could post significant declines. But what would it take to get me to change my bearish outlook and recommend aggressively buying stocks? On the technical side I would like to see the S&P 500, Dow Jones Industrial Average and Nasdaq all sustain price moves above their respective 200-day moving averages. On the sentiment side, I want to see more investor pessimism, which translates into more cash on the sidelines and depressed valuations, the ingredients for a bull market. ■

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