

Another Hurrah for Tech

LOOK FOR SEMICONDUCTOR EQUIPMENT and other technology stocks to perform very well after a tough start for the year. After peaking in January, investors fled these stocks. Some went to cash, others sold options to protect themselves, and some went to bonds as Treasuries approached the record highs of last summer. I regard the correction in tech stocks as a great buying opportunity, which should come as no surprise, since my last two columns mentioned that I was looking for exactly this kind of sell-off. With sentiment having turned negative on tech, my bullishness has been renewed, and I expect the NASDAQ to outperform the S&P 500 by a good margin for the remainder of the year.

In my previous column, I suggested a potential opportunity to buy semiconductor-equipment stocks if the semiconductor index (SOX) experienced a double-digit percentage drop and tested its 200-day moving average. Both these events occurred, as investors worried that the upturn was running out of steam. Instead, they should be worried about it picking up steam. Given how tight capacity is stretched, it's not going to take a

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whole lot of additional demand to create some real train-wrecks in the supply chain. From the investor perspective, however, that means higher ASPs and margins for the better-run equipment companies, so if that happens it should give a nice boost to those stocks. After dropping chips stocks because I worried they needed to grow into their valuations, I am going to again recommend the Semiconductor HOLDRS (SMH) – this time in place of pharmaceuticals (PPH).

STRENGTH IN THE SECOND HALF

I believe we are going to see a mini-replay of last year. The first quarter has a lot of folks worried that the economy will fail to improve, and with the bombings in Spain and increasing violence in the Middle East many are concerned about the global situation. But I expect we are only putting in another bottom of pessimism. By the time the second half rolls around, we will be seeing employment and other economic growth measures picking up. I don't think corporations can squeeze

much more out of their infrastructures, and they will start hiring bodies and expanding budgets. I am even bullish on IT spending, and if I am correct that would be good news for chip stocks. As a result, I also still like those technology sectors and stocks, like software and networking, which will benefit from increased corporate spending.

On a global basis Europe has been running behind the U.S., but I expect these economies will finally get on track in the second half of the year. Since I am throwing out macro-economic predictions I will say that the odds are good that the European Central Bank will cut interest rates this year and provide more monetary stimulus for Europe. Looser European monetary policy would be bullish for the U.S. dollar and help ease some of the currency pressure on European exporters. In fact, since early March the fund I advise has been long on the U.S. dollar, and I believe odds are good that March marked an intermediate-term low for the currency. Unfortunately, unless you are hedging out your Euro exposure any weakness could subtract from what I expect to be very strong equity performance in Europe. But I still like these stocks, especially given the extreme pessimism around Germany in particular.

GET LONG, AND STAY LONG

Even if hindsight proves my first-half correction thesis right, I don't advocate trying to time the short-term dips in the stock market. It is nearly impossible to do so consistently, and it exposes your portfolio to the risk of missing out on the explosive rallies that usually mark the end of a correction. One of my favorite books written on the stock market is *Reminiscences of a Stock Operator*, the fictionalized biography of one of the greatest speculators who ever lived. The book offers many pearls of wisdom, but none in my opinion is more valuable than the simple observation that, to make money in stocks, one should get long and stay long in a bull market. Well, this bull market is still relatively young and should have a good ways to run. My recommendation is to get long and stay long in 2004 with a bit of a tech overweight, even if you missed the opportunity to buy into a dip. ☺

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