ONE HIT WONDERS

MAY 2002

Question…

What do the recent one-day run ups in stock market…

Dexy's Midnight Runner's "Come on Ilene"…

and the Baha Men's "Who Let the Dog's out" have in common?

Answer…

They are all one hit wonders!

<u>These are the facts!</u>

On Wednesday, May 8th, the Dow industrials jumped more than 300 points, prodded by better-than-expected earnings at Cisco Systems and some modestly optimistic comments from Cisco Chief Executive, John Chambers. The NASDAQ composite soared 7.8% that day, notching its eighth-largest percentage gain ever.

When I take a look through my *"BS"* microscope things look a little different. Cisco's sales for the quarter were flat, its profits enhanced by cost cutting, and its direction about the current quarter was unenthusiastic at best.

Cisco's results are hardly a substantiation that another explosion in tech spending is about to commence. First, Cisco's profit rebound was based on a comparison to the worst quarter in the company's history. Cisco's revenues were only up a meager 2%.

When looking further through my microscope we find that most of the profit improvement is due to intense cost cutting over the past year: Cisco ended the latest quarter with 35,935 workers — down from 39,660 a year ago. Operating expenses fell to $2.0 billion from $2.5 billion a year ago, not counting last year's $2.2 billion write down. Gross margins rose to 63.5 %, helped by lower prices for components, amid a glut of parts and price-cutting by suppliers battered by the slump in tech spending.

Business spending is not bouncing back. Don't take my word for it, ask Michael Dell, Carly Fiorina, or Bill Gates. All the cheerleading in the world by idiot analysts and brokers is not going to change that fact.

This past week we have seen some more one hit wonders. Consumers decided to do some spring shopping in April. However, that is hardly a sign that the recession is over. Consumers have continued to spend throughout this recession. Without the consumer, the economy would be in much worse shape. Right now we are reaching critical mass, it is time to pay the piper. Total consumer credit outstanding reached a record $1.69 trillion.

The party has to end sometime. It is not a matter of if; it is just a matter of when. Even with low interest rates and "no down payment" deals, consumers will not be able to persist, taking on more debt. This is truer now more than ever, especially with rising unemployment.

The bottom line is unemployment could go well higher. More and more companies are toiling to slash costs, cut debt and avoid bankruptcy. Most recently, SBC Communications announced it would slash another 5,000 jobs. IBM is expected to cut close to 9,500 workers from its payrolls. Winn-Dixie plans to eliminate 5,300 workers as it closes down 76 grocery stores. With 20,000 job cuts in just one week, how is it possible for the consumer to carry the economy? Credit card companies are now starting to report record late payments and defaults.

Investors must not buy into the hype of these one-day run-ups. It is a classic “bear trap.” The average S&P 500 company is trading over 35 times its earnings. Quite frankly that’s just way too expensive. The fact remains that investors must come to grips that the “star” stocks of the late 1990’s will never trade back to where they were. Do not average down; do not believe your idiot broker when he tells you to hold on. Time to revamp your portfolio kids.