the telecomm analyst℠

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Strong Buys

TV Guide Interactive

A Winner For Gemstar

By Paul DeMartino

The Telecomm Analyst℠ combed through research submitted to the Multex.com database this week, looking for Strong Buys. This column is intended as a starting point for investment ideas in the telecommunications industry, not as an ending point. The opinions expressed in this column are those of the firms mentioned, and not necessarily those of the author, The Telecomm Analyst, or Multex.com. In order to be included in this column, a stock must receive a firm's highest rating, and the valuation methodology must be included in the report.

GEMSTAR INTERNATIONAL GROUP (GMST): On March 9, Salomon Smith Barney reiterated its Buy rating (for investors with high-risk tolerance) on the shares of TV Guide-owner Gemstar International Group. The company reported pro-forma fourth-quarter results that exceeded Salomon's expectations. (Its pro-forma results ignore a one-time payment from Motorola (MOT) to settle some legal issues before their joint strategy begins.) Gemstar's top line for the quarter was $351 million, down 1% from the year-ago period, but above Salomon's $345 million estimate. Salomon also gives the quarter's pro-forma EBITDA (earnings before interest, taxes, depreciation and amortization) of $106 million, well above its $100 million estimate. The driver of growth in the quarter was Gemstar's Interactive Platforms segment (offset at the revenue line by a continuing decline in TV Guide subscriptions). The group, which produces TV Guide Interactive for digital cable systems, saw its advertising-based sales increase about 700% year-over-year and 60% sequentially to $10.7 million, largely as advertisers turned their backs on the Internet. Looking forward, Gemstar reiterated its 2001 guidance. Salomon now projects revenues of $341 million in the first quarter of 2001 and EBITDA of $113 million. The firm gives a target price of $84, based on a discounted-cash-flow analysis. GMST shares closed at $46.31 on March 8, but closed at $42.75 on March 9.

TRANSWITCH (TXCC): Dain Rauscher Wessels reiterated its Strong Buy on the shares of integrated-semiconductor-equipment maker TranSwitch on March 9. The company, alas, warned that its first-quarter results would be disappointing. In response, the firm lowered its forecast for the quarter. It now projects $51 million in sales, down from $55.1 million, and EPS of $0.17, from $0.18. It blamed the slowdown on slower purchasing from Lucent Technologies (LU) and Nortel

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Networks (NT), although it also stated that two of its other customers, Redback Networks (RBAK) and Tellabs (TLAB), showed no similar slowdown, and international orders continued to be strong. In Dain Rauscher's view, this all adds up to near-term uncertainty. Nonetheless, the firm points out that TranSwitch's preannouncement was the mildest of its peer group, and the company continues to have excellent long-term prospects. The firm forecasts share earnings of $0.60 and $0.71 in 2001 and 2002, respectively. Its target price is $26, based on a price-to-earnings ratio. Shares of TXCC closed at $19.25 on March 8, but were at $18.46 during trading on March 9.

METROMEDIA FIBER NETWORK (MFNX): On March 9, U.S. Bancorp Piper Jaffray reiterated its Strong Buy on Metromedia Fiber Network. The company reported fourth-quarter 2000 earnings, and everything was fine. Metromedia reported a top line of $61 million for the quarter versus U.S. Bancorp's projection of $57 million. For the full year 2000, revenues were $188.1 million. The company reported a share loss of $0.24 for the fourth quarter, and a loss of $0.76 for the full year. The firm had projected $0.28 a share loss. U.S. Bancorp considers this to be very positive, since Metromedia has shirked the general trend in the industry, and since this weakness is already, in its view, priced into the shares, this is a good choice for investors. For 2001, U.S. Bancorp projects a loss of $1.38 a share. Its $27 target price is based on an enterprise-value-to-sales ratio. MFNX shares closed at $9.06 on March 9.

The Sell Report

360Networks

A Club You Don't Want To Join

By Aram Fuchs

Besides the Hair Club For Men, there is only one other club that CEOs of telecommunication companies would rather not be a part of, and that's the "We Have To Lower Guidance For 2001 Revenue Club." But unfortunately, it seems that owing to excessive optimism (which, it is rumored, causes male baldness), Greg Maffei, the CEO of 360Networks (TSIX), is now a member.

The company lowered its original revenue projections by more than 22%. Amazingly, the company just became public 11 months ago. Clearly, management misjudged the demand for its services when it was going public. The company must have thought that it could sail through the maelstrom that has occurred since the Internet bubble deflated. But now, as Larry Olsen, vice chairman and chief financial officer, said in the earnings release, the company is finally realizing that "no one in our sector will be insulated from this market reality." The shares closed at $5, its 52-week low, on Mar. 7.

The carriers that buy dark fiber (so that they actually own part of the network that 360Networks is building) and simple bandwidth are being forced to cut down on their capital expenditures. In general, this is because the price of all sorts of bandwidth-related products (e.g., voice, data and video) is plummeting owing to excess supply. The company is chopping $700 million in revenue from its original guidance of $3.1 billion to $3.3 billion for fiscal 2001. Not surprisingly, it's also cutting approximately $500 million from its capital expenditure budget. Thus, it still thinks that it is fully funded, given the credit and cash on hand.

What should investors do now? The fact that 360Networks is reducing its capital expenditures so substantially is another welcome sign of rationality coming back into the telecom market (see my piece on Net2Phone (NTOP) on Dec. 26 for more on this). For years, investors believed that unit demand would forever compensate for declining unit prices. The problem in telecom stocks occurred when this irrational belief inspired investors to pour billions of dollars into next-generation providers like Qwest Communications (Q), and Global Crossing (GX). When those companies were able to raise capital easily, entrepreneurs founded companies such as Level 3 Communications (LVLT) and 360Networks.

In the past year, we've finally hit a point where unit pricing is decreasing faster than unit demand is increasing. Investors should learn that no "law" in technology finance lasts forever. This is because when it becomes accepted fact, it affects the amount of capital available to the sector, thus affecting the pricing and eventual profitability of the investment.

Investors should still watch 360Networks. Almost every management team in the Internet and telecom sector has followed a first round of earnings-estimate cuts with a second round. Hopefully, management realizes that there is a glut in the industry that won't be solved by a simple rebound from the current economic problems we are having.

Fertilemind.net will watch for pricing of bandwidth to see when the supply constraints that are finally being instituted by the rational players (or via bankruptcy) will have the desired effect. Until then, it's prudent to avoid the equity of 360Networks.

Aram Fuchs is the CEO of Fertilemind.net, an independent Internet equity research and consulting firm. At the time of publication, he did not have any interest in the securities mentioned in this article. Mr. Fuchs frequently buys and sells securities that are the subject of his articles, both before and after publication

Upgrades & Downgrades

Cisco Gets Slammed, Again

By Emily Burg

CISCO SYSTEMS (CSCO): On March 6, analysts at Banc of America Securities downgraded the shares of the communications equipment company to Buy from Strong Buy and revised their 12-month price target to $35 from $60. (Banc of America Securities may buy, sell or maintain a market in Cisco shares.)

The analysts reduced their fiscal 2001 and 2002 EPS and revenue estimates because of their diminishing confidence in the recovery of a number of key industries and in macroeconomic trends. Fiscal 2001 EPS estimates have been dropped to $0.60 from $0.63, and fiscal 2002 EPS estimates have been lowered to $0.70 from $0.75 to reflect this growing concern and a less-robust outlook. The analysts now are modeling 35% year-over-year top-line growth in fiscal 2001 and an 18% increase in 2002, versus previous estimates of 38% and 25%, respectively.

The analysts believe that the current slowdown in North American carrier spending, as well as reduced corporate information technology (IT) budgets, likely will result in a longer-than-anticipated transition period for Cisco. Another concern is that the European market is beginning to show signs of weakness, and European wireless buildout likely will be delayed through 2002. Visibility for Cisco continues to wane, and financing is getting tougher to obtain for all players in the sector. Cisco shares closed at $20.31 on March 8, but hit a 52-week low of $22.81 during trading on the next day.

The analysts feel more comfortable recommending pure-play optical companies with strong execution histories, such as CIENA (CIEN) and ONI Systems (ONIS).

SBC COMMUNICATIONS: Analysts at Legg Mason Wood Walker downgraded the shares of the telecom-services company to Market Perform from Buy on March 2 and lowered 2001 growth estimates following SBC's recent earnings guidance call. (SBC is a Legg Mason Select List core holding.)

On the call, SBC management gave first quarter EPS guidance of $0.50 to $0.53, reflecting higher-than-expected expenses related to the company's acquisition of Sterling Commerce, its DSL rollout, its long-distance operations, and startup/branding costs for its Cingular Wireless joint venture. The company provided no clarity on key sequential factors between fourth quarter 2000 and first quarter 2001, or on expense improvements going forward.

SBC reiterated its guidance for 8% to 9% revenue growth in 2001 and EPS growth between 11% and 14% that year. As a result, the analysts downgraded first quarter 2001 EPS estimates to $0.51 from $0.53 and full year 2001 EPS estimates to $2.38 from $2.48; they project $2.63 a share in 2002. The stock closed at $45.46 on March 8. Research about SBC was accessed 1,223 times, and 94 new reports were added to the Multex.com database during the week of Feb. 26 to March 4.

FLEXTRONICS INTERNATIONAL (FLEX): On March 2, analysts at RBC Dominion Securities downgraded the shares of the wireless-equipment company to Outperform from Strong Buy, following a recent conference call that raised concerns about the company's relationship with customers Ericsson (ERICY) and Motorola (MOT). (RBC may have a long or short position or issue options on Flextronics securities.)

Flextronics management did not raise forward-looking guidance on the call, despite its much-lauded arrangement with Ericsson, under which Flextronics will assume Ericsson's handset-manufacturing business. That's expected to represent between $2 billion and $4 billion annually for Flextronics and will likely be fully ramped up by the June quarter. Instead, the company left March quarter guidance intact at revenues of $3.2 billion and EPS of between $0.25 and $0.26.

Consequently, the analysts reduced their price target for Flextronics shares to $36, based on trading at 25-times their calendar 2002 EPS estimate of $1.43. That multiple reflects a small discount to the company's growth rate, which the analysts believe is in line, given the global slowdown in handset buildout and spending.

The analysts write that Flextronics is experiencing pushouts and cancellations from customers across both its telecom and networking businesses, which, combined, represent more than half the company's revenue. Moreover, there is a lack of clarity surrounding the company's relationship with Motorola. The two companies announced a five-year, $30 billion deal in April 2000 that the analysts expected would add $1.5 billion to the coming fiscal year. However, no benefits from this relationship have materialized. Flextronics shares closed at $29.56 on March 8.

Executives Zero In

XM Satellite Radio

Hugh Panero

President and Chief Executive Officer

Interviewed by George S. Mack

You're driving to work on a Monday morning, and lo and behold, you're nearly jarred out of your seat. No, it's not an accident. It's actually a country music-flavored commercial for pickup trucks at twice the volume of the music you were listening to. But very soon, perhaps as early as this summer, XM Satellite Radio (XMSR) will be broadcasting a brand-new technology and service to your new car, which will be fitted with a small wallet-size satellite dish and a specially equipped XM-capable radio. Some of the digital-quality programming will be commercial-free, with your choice, to name a few, of jazz, classical, rock, urban, blues, bluegrass, gospel, New Age, and country. Among others, your news choices will include USA Today, the BBC or CNN. You can also listen to Bloomberg's 24-hour feed, specially tailored for the financial news junkie. If you spend a lot of time in a vehicle, it's easy to see that this is worth all of the $9.95-per-month subscription fee. But before you mortgage the house and log onto your broker's Web site, you should know that XM Satellite has yet to get its birds in orbit. Very recently, jitters have been evident in the stock price, as investors have begun to vex over the rapidly approaching March 18 launch of "Rock," the first of the company's two satellites. "Roll" is scheduled for launch some time in early to mid-May. The shares closed at $10.44 on March 8, up from the 52-week low of $9 that the stock reached on March 5.

[THE TELECOMM ANALYST – GEORGE S. MACK] My understanding is that you need about $200 million more to complete your network. Is that for the repeaters and other infrastructure that will go into the cities?

[HUGH PANERO] We actually need $150 million to $175 million for the balance of this year, but the majority of the network has already been paid for. [About eight days after the interview, the company announced on March 1 that $125 million of convertible notes and 7.5 million shares of common stock were priced for total proceeds of $201 million. Analysts are saying this will fund the company into 2002.]

[GSM] Your only direct competitor, Sirius Satellite Radio (SIRI), already has three satellites in orbit. When yours are up, you will have only two. Will Sirius have better coverage than you will?

[HP] No. Basically, the companies have approached the problem with different architectures, but the end result will simply be that each will have quality coverage throughout the United States. We just approach it differently. We believe at the end of the day, there will be no difference between the signal coverage both companies will be able to deliver.

[GSM] I understand that, in case of a launch failure, you were supposed to have a spare satellite ready by the end of February. Is that ready?

[HP] The long lead parts have been provided, and the spare satellite would be ready for any kind of contingent launch in case of some challenge we might have.

[GSM] This is a softball question, but, as investors, my readers would like to know if there's enough demand for two satellite radio networks.

[HP] Sure. All the market studies have indicated that there's an audience demand for satellite radio somewhere in the range of 43 million to 49 million potential subscribers. There are more than 200 million licensed vehicles on the road today. To simply get 6 million subscribers [for break even] out of that universe, we only need about 3% penetration. There will be 140 million car stereo units sold in the next five years, and to reach six million subscribers, you'd need to penetrate that market by about 4.3%. So you only need very small percentages of whatever universe you want to look at. We think there's a big-enough universe for both companies to be successful. Was that a softball answer? [Laughing]

[GSM] Can both you and Sirius not just survive but thrive in this market?

[HP] I think both companies can thrive in the market.

[GSM] How much of the market can you penetrate?

[HP] We just assume that whatever it is, the two companies will split the universe equally.

Vital Statistics
XM Satellite Radio (XMSR)

Market Cap:	$607.61 million
Shares Outstanding:	58.2 million
Recent Stock Price:	$10.44 (03/8/01)
52-Week Range:	$46.94 – $9
Price to Estimated (2001) Revenue:	41-times

	EPS	Revenue in millions
Years end in Dec		
2000A:	($1.38)	$0
2001E:	($5.11)	$9.2
2002E:	($5.34)	$102.6

Source: W.R. Hambrecht + Co.

[GSM] Can there be any assurance that the Federal Communications Commission (FCC) will not auction off another satellite radio band?

[HP] The only assurance in life is the love of my children, along with death and taxes. Right now, there is a limited amount of radio frequency spectrum that is available for any ancillary use. The “S-band” [2320 MHz to 2345 MHz], which was identified to be used for national satellite radio, has been auctioned off between the two companies, and that took seven or eight years to coordinate– not only through our own regulatory structure but also internationally. If the FCC wanted to allocate another part of the radio frequency spectrum, it would also have to go through a similar lengthy process that would be both domestic and international. Would it be possible one day? Anything's possible. But is it realistic? In the short term, I don't think so.

[GSM] Because you're partially owned by Hughes Electronics (GMH) [which owns DirecTV and is a unit of General Motors (GM)], you've got all the GM cars, is that correct?

[HP] Our ownership is one of our greatest strengths. Our owners include GM, Clear Channel Communications (CCU) and DirecTV. That's the largest car company, the largest radio company and the largest satellite television company in the world. Honda Motor (HMC) is another very important strategic investor. Yes, we have an exclusive relationship with GM, and we also have a relationship with Honda to develop in-vehicle services. We also have a deal with Saab [a wholly owned unit of GM].

[GSM] But the GM cars must be the big gun you're counting on.

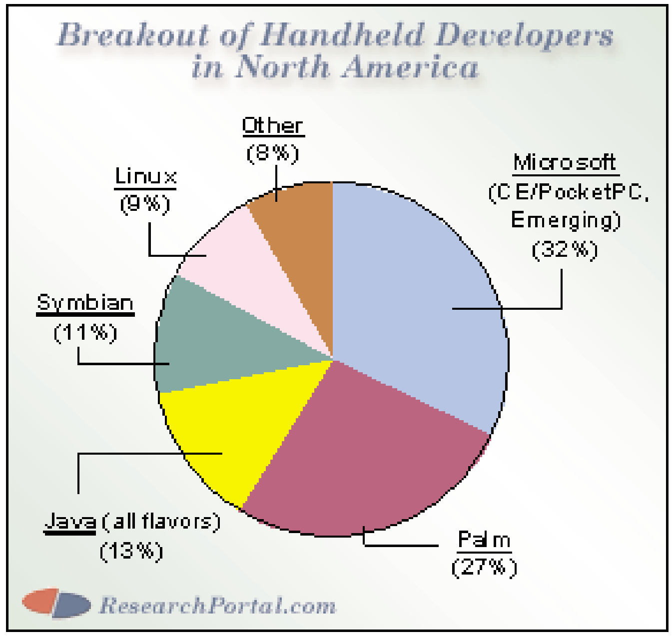
[HP] It's obviously an important element in the development of the company because of its ownership and then also as a distributor. This has given our enterprise an enormous amount of credibility. Obviously, having cars that are equipped with XM Radio right at the point of sale is a very compelling part of our sales and marketing approach. But we also have a very aggressive campaign to sell car stereo units that are XM ready in what's called the aftermarket. Of the 28 million car stereo units sold last year, about 11 million were sold in the aftermarket – where you go someplace like Best Buy (BBY) or Circuit City (CC) and replace your existing radio with a better one. So you really need to approach both markets aggressively to be successful. But obviously, the OEM [original equipment manufacturer] environment in the car industry is very important, because that basically sets up satellite radio as a ubiquitous or standard feature in new cars coming out.

[GSM] That brings up this question: Can this technology become as pervasive in cars as cable or satellite television has become in the home?

[HP] I grew up in the cable television industry, and I was around as that business was being born and people like you were asking the same kinds of questions. They wanted to know if cable TV could eventually reach 70 million people, and the answer now is obviously “yes.” They also wanted to know if DirecTV would become as successful as it is. And the answer is obviously “yes.” Radio is to the car what TV is to the home. And if you look at the radio environment, it has not had a technological change since the introduction of FM. Compare that to the television industry where there have been five or six unbelievable changes going from black and white to color, to cable, to satellite, to wireless, and now to interactive. We are approaching radio, which is an analog medium, and we will provide coast-to-coast coverage in digital-quality sound with the same abundance of choice that people are used to getting in other entertainment environments. Until now, they have just been unable to get choices in the car audio world.

[GSM] How big is your addressable market in dollars?

[HP] I would point to analysts for better readings on that, but there are some analysts that have sized this market in five years to be about a $3 billion business.



Telecom Insight

Where Are All the Developers?

By ResearchPortal.com

With the introduction of mass-market solid-state devices targeted at horizontal markets, handheld manufacturers have done much more than just bring a new class of device to the mobile computing arsenal. They have created a product class that is slowly but surely attracting developers to the party and drawing attention to this product category. To date, the handheld platform has attracted a broad range of developers that are unbiased toward any particular hardware manufacturer or software application set. Microsoft (MSFT) and Palm (PALM) have wisely chosen to position

Windows CE and the Palm OS, respectively, as environments that can be applied to numerous smaller devices other than handheld PCs – environments that include smart phones, consumer electronics, point-of-sale equipment and various other vertical market-oriented devices.

Below is the percentage breakdown of handheld developers in North America by operating system (OS) platform. Developers that spend time developing for multiple OS platforms are categorized only by the handheld device OS for which they spend the majority of their development time.

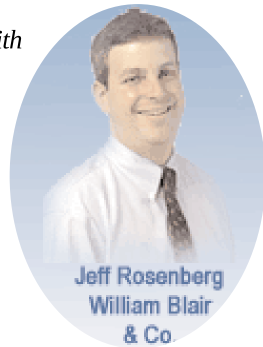
The Analyst's Spotlight

Molex, Solectron

Jeff Rosenberg

Analyst, William Blair & Co.

Interviewed by Taylor Smith



The Telecomm Analystsm recently spoke with Jeff Rosenberg, who covers the electronic component and contract manufacturing industries for William Blair & Co., about stocks that are well-positioned in the slowing telecommunications market. William Blair & Co. has done investment banking work for Molex (MOLX), and the analyst holds shares of both Molex and Solectron (SLR).

[THE TELECOMM ANALYST – TAYLOR SMITH] What is happening currently in the telecommunications market?

[JEFF ROSENBERG] I'm seeing companies with increasingly attractive valuations in this slowing telecommunications environment. But weakness in equipment demand in the telecommunications sector has led to overstocked inventory and weaker outlooks for original equipment manufacturers (OEMs). In this market, there's no point to buying shares in lower-quality companies. With that as a backdrop, I am currently looking at companies with strong market positions and broad market exposure.

[TS] Which companies fit that profile?

Analyst Coverage

Jeff Rosenberg, Analyst, William Blair & Co.

Industry covered: Electronic components and contract manufacturing
Education: MBA, University of Chicago
Companies covered: Solectron (SLR), Molex (MOLX), Linear Technology (LLTC), Jabil Circuit (JBL), Maxim Integrated Products (MXIM), Microchip Technology (MCHP), PMC-Sierra (PMCS), Zebra Technologies (ZBRA); ScanSource (SCSC).

[JR] Molex manufactures connectors and switches for electronic, electrical, and fiber-optic use. Molex's customer base, which includes companies in the automotive, medical and communications industries, is very diversified. With this diversification, the company will be affected by the slowdown in the telecommunications sector, but it will benefit from its broad range of customers and sales. Molex has upped its communications division to roughly 22% of sales, and 10 years ago, that percentage was in the single digits. My rating on the stock is Long-term Buy. [Molex shares closed at $39.56 on March 8.]

[TS] How does the current landscape in the telecommunications market differ from last year's landscape?

[JR] A year ago, most companies wanted to have 100% exposure to one sector of the market to take advantage of that sector's growth. Now, diversification is proving to be an increasingly important part of a company's ability to ride out difficult market environments.

Solectron is a good example of a strong, well-diversified company. It manufactures electronic components and is one of the top suppliers to the OEM market. Many companies, including Cisco Systems (CSCO) and Nortel Networks (NT), have been ramping up the amount of outsourcing they use, which is benefiting companies such as Solectron, Jabil Circuit (JBL) and Sanmina (SANM). I see Solectron as the industry leader and the biggest player. That position helps it pull in business from OEMs that need to outsource manufacturing. I currently have a Long-term Buy rating on the stock. [The shares closed at $28.65 on March 8.]

Panning for Gold

Metro One Telecommunications

Enhanced Services Make Metro One Look Good

By Marc H. Gerstein
Market Guide, Director of Investment Research

By now, many cell phone users have had occasion to call from their cars for traffic information or driving directions. But how many have taken a moment to think about who is actually handling their requests? Does it seem sensible for outfits like AT&T Wireless (AWE), Sprint PCS (PCS), Vodafone (VOD) or Nextel Communications (NXTL) to hire a bunch of people to perform these tasks? With pricing under so much pressure, can these companies afford to overlap one another by setting up provider-specific call centers?

If you answered "No" to these questions, you are correct. All of the named providers, and others, have contracted with Metro One Telecommunications (MTON) to provide enhanced directory assistance (EDA) services to their customers.

Originally, this started as a price-per-call business. But Metro One offered volume discounts to contracting carriers as the number of calls increased to certain threshold levels. By now, volumes have grown enough to trigger heavy volume discounts.

That's bad in that it pressures Metro One's margins and is forcing it to be more strategic in terms of how it expands call centers (to make sure it operates as cost-effectively as possible). But investors willing to see the big picture can see a silver, or rather platinum, lining. Heavy call volume tells us Metro One's EDA services are a hit with consumers.

When it comes to balancing such things, I like to come down on the good side of the fence. If Metro One's services are a hit, I'm willing to assume that the company will find a way to deliver them in a cost-effective manner. This isn't a slam dunk, but I'd rather take this risk than deal with a company that can efficiently provide a product or service that makes target customers yawn.

Why, you might ask, am I so confident that Metro One will manage the business effectively? After all, Amazon.com (AMZN) has done well building a popular service, but even now, we still don't know if cost issues will ultimately spell doom. Metro One and Amazon are very different creatures. Amazon is famous (or infamous) for its losses. Metro One, on the other hand, is profitable. Better still, the nature of its profitability is such as to land it a place on Market Guide's Return On Investment screen. This is our premier "good company" screen, the one that focuses on management groups that have demonstrated strength at working well relative to resources at their disposal. (Metro One's shares closed at $25.19 on March 7. It reached a high of $35.50 on Jan. 31 of this year.)

By the way, EDA involves far more than driving information. Besides that and the usual phone number services (and related ones such as call completion, searches when the caller has imperfect information, etc.), EDA can handle movie and restaurant information. Its TeleConcierge services can handle reservations. And this year, Metro One will roll out its new MetroDex service for AT&T Wireless subscribers. The latter can upload personal information from Microsoft Outlook, Lotus Notes or handheld devices into Metro One's database, and then access and update it by phone or directly from a Metro One Web site. Sonera (SNRA), which recently made a $68 million equity investment in Metro One, may be able to help the latter expand the nature and geographic reach of the services it offers.

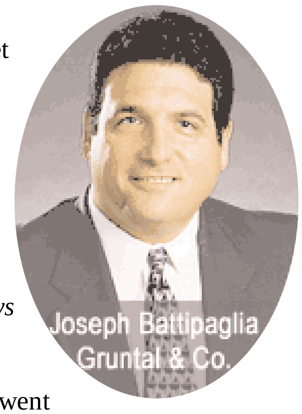
Top Picks

2001:
A Telecom Recovery?

Transcribed from a live AOL MarketTalk chat produced by Sage Online

Hosted by Brian Stetten, Chief Market Analyst

The Telecomm Analyst's *sister site,* Sage Online, *which produces AOL MarketTalk chats with Wall Street professionals, spoke recently with Joseph Battipaglia, chairman of investment policy from Gruntal & Co., about the current state of the market and his views of the telecommunications sector.*



[BRIAN P. STETTEN]: What exactly went wrong with the year-end 2000 forecasts?

[JOSEPH BATTIPAGLIA]: There were several negative surprises last year. We had an extended period of rate tightness and monetary policy tightness; energy prices stayed too high for too long; the Internet bubble burst with a ferocity that was very much unexpected; and, to cap things off, the presidential election lasted 36 days instead of one, creating uncertainty for the public and in the business arena. All of these factors pushed equity prices lower than I expected them to be at year-end.

[BPS]: For an aggressive investor, would you recommend raising equity exposure now?

[JB] Yes, very much so, and for that same aggressive investor, I would be overexposed in technology, biotechnology, and financial services at this time. In addition, I would be interested in the stocks of many of the distressed telecommunications companies, such as AT&T (T), WorldCom (WCOM), Lucent Technologies (LU), and Nortel Networks (NT), as ways to participate in the eventual potential recovery of these companies' prospects.

[BPS]: Are any of the beaten-down semiconductor issues worthwhile at this point?

[JB] We are very bullish on the semiconductors. There have been three sharp corrections in this group of stocks going back to 1995, with this latest reversal being the third. Ultimately, supply and demand get back into balance. The trajectory of growth is clearly higher both domestically and internationally, and I would want exposure to these stocks at the present time. Names that I favor include Intel (INTC), LSI Logic (LSI), Motorola (MOT), and, in the semiconductor equipment category, Applied Materials (AMAT).

[BPS]: Aren't there concerns about Motorola consistently losing market share to Nokia (NOK)?

[JB] Those issues exist, but I expect Motorola's semiconductor business to do significantly better, and the company seems to be making the right changes in its handheld device business. The stock is down from $61 a share to its current price of $18, and at $18, the stock is interesting. [The shares closed at $15.55 on March 9.]

[BPS]: Is Cisco (CSCO), a buy at the current price, and what is your outlook for the stock going forward?

[JB]: At this price, Cisco would be a buy. All the bad news regarding its immediate prospects is already reflected in the stock price. I recognize that Juniper Networks (JNPR) is a competitive threat, but it's not a battle that Juniper can win overnight. Therefore, I would rate Cisco attractive at the current price

[BPS]: What is your opinion of the UBS PaineWebber downgrade of Cisco (CSCO)?

[JB] Strategists and analysts are reaching a point of capitulation on the markets and on the stocks they cover. The stock prices have come down so far that it's counterintuitive to me that you would downgrade them at this point. So I look at those downgrades as a contrary indicator of what comes next in the stock price. It takes a great deal of courage to stand in while the markets fade, as they did in 2000. But I believe that we will be rewarded as the fundamental picture improves and in turn improves the expectations for common stocks across the board. This would ultimately lead to significantly higher stock prices for those who have withstood the test.

To find out what else Joseph Battipaglia had to say, check out the entire transcript at http://aol.sageonline.com/transcript.asp?id=13386&ps=1&s=8

Rants, Raves & Stress

How to Defuse A Time-Bomb

By Drs. George and Mae McAuley

George McAuley, M.D. is a psychiatrist in private practice and a medical director of psychiatry in Los Angeles. Mae McAuley, Ph.D. is a clinical psychologist in private practice. The McAuleys work in all areas of psychology and have special expertise in stress disorders. If you have a telecom-psychological question, they will try to answer it in a subsequent issue. E-mail the McAuleys at maegeomagic@aol.com.

Do you work in an environment where your boss or co-worker is so angry that he explodes and loses his temper? A common reaction of people who have to deal with this situation is either to explode also or to quietly withdraw and feel anger and resentment themselves.

Explosive people are ticking time bombs that destroy relationships and organizations. They are usually hurried, driven people who seek immediate gratification. More often than not, they are suspicious and even paranoid. If they are not going to receive what they want now, they presume that someone is out to get them. Their anger, then, is directed at whomever or whatever they presume is thwarting them.

Another trait that is so difficult to deal with when working with angry people is their exceedingly high expectations and perfectionism. They believe in a perfect world, where their expectations will be met at all times. The report will be completed on time without an error. If not, anger and hurt follow.

Perhaps the most difficult trait to cope with while working with an angry person is his obsessive need for control. He is always on your case, micro-managing everything. He has a hard time controlling his emotions and can be sarcastic or, worse, will scream or bang his fists until you jump.

So how do you cope? The first step is to make sure that you yourself are under control. If you find that you are physiologically aroused (your muscles are tensed, stomach is churning, heart pounding and you are starting to raise your voice), this should alert you to the fact that your anger buttons have been triggered. Now you need to immediately resolve these feelings in a responsible way or you will lose control. Any technique that relaxes or distracts you should be used until you regain composure.

It is important when working with an angry person to send a clear signal that you are strong, capable and in control of yourself as well. Don't speak until you have those three factors in hand. It is important to remember that you can't have a reasonable conversation with a person who is angry. So take a time-out until both of you recover your composure.

When things have quieted down, say what needs to be said in a professional manner. Speak in a calm, conversational tone. Use "I" messages such as, "I hear what you're saying," "I understand you to mean…."

Don't counter-attack or get defensive, as this will only escalate the situation. An angry person will relish an attack, since this will give him justification for his anger. Don't withdraw; stand your ground. Let him know that he has been heard by restating what he has said. Then state your point of view by using "I" messages and keeping to the point. It is easy to stray from the problem and get personal. Stay with the problem, not the person.

Be direct and assertive. An example would be "I understand that you are having a problem with the way I'm handling this project. Let's discuss your concerns, since we need to work together to make the project successful." Keep to specifics and don't get into fuzzy generalization.

If you believe that the person is harboring a grudge against you, try to meet privately to clear the air. Listen carefully to what he has to say without agreeing, disagreeing or becoming defensive. Just bringing a problem to the surface can clear up a misunderstanding. Furthermore, your taking the initiative is a powerful move and can eliminate covert messages being disseminated against you.

The angry person feels misunderstood, unheard and out of control. You should listen so you will understand. Let him know he has been heard and suggest that you meet as often as needed if a problem arises. Your goal is to be heard, understood and respected, too. By staying calm, assertive, focused, specific and team-oriented, you will carry the day.

Letters to the Editor

Book Value and Valuation

Roger Emerick writes: I am a novice investor. I've noticed that smaller telecom companies [like Primus Telecommunications Group (PRTL) and Viatel (VYTL)] have price-to-book values less than one. If book value is assets minus liabilities to include all debts, why would these companies sell for less than book value per share? For that matter, why would any company? Thanks a lot.

Roger: Thanks for writing. Book value is usually meaningless for valuation, particularly for telecommunications companies. First, most valuation methods are based off of discounted cash flows. There are no cash flows in a balance sheet (it's more of a snapshot of a company's financial condition at a given time), so it has little relevance to valuation.

Also, consider the nature of the report. The value given on a balance sheet is the purchase price, regardless of how much something is actually worth. Ever heard the saying that a car loses 50% of its value the instant that it's driven off of the dealer's lot? A company would still list that asset at its sticker price.

Finally, there's the question of depreciation. Consider that computer equipment is depreciated totally in two years – that is, for accounting and tax purposes, it now has no value and is no longer reported on the balance sheet. Is a two-year old computer really valueless? Probably not. And telecommunications companies have gobs of the stuff.

Even in a liquidation situation, the combination of historical prices and depreciation makes the balance sheet not particularly useful for valuation; current value has to be used to gauge how much physical assets are worth. The only thing that should translate directly to value is the cash line. Cash is cash, and, if you have enough to pay off all liabilities, then the excess can be divided among shareholders. This is exceedingly rare. I hope that helped. – Paul DeMartino