

Posted to the Gilder forum - December 20, 2000

Denny's performance

	-----NASDAQ-----		Denny	Cash/Margin
Dec 31, 98	2,192.69	0.0%	0.0%	15% C
Oct 31, 99	2,916.43	33.0%	45.0%	1% C
Feb 28, 00	4,696.69	114.2%	243.5%	3% M
Oct 31, 00	3,369.63	53.7%	107.4%	25% M
Dec 20, 00	2,332.78	6.4%	10.4%	17% C

House, beach condo, boat and car fully paid for. No debt besides margin.

As you can see, with the help of the GTR, I have consistently outperformed the NASDAQ since I started using the GTR in January 1999. There is nothing wrong with the GTR if you use it prudently. At the end of October, seeing how the value of the portfolio was crashing and my margin was going up beyond my safety limit, I decided that swift action was required. I sold 44% of my portfolio in two lots on November 8 and November 22. I have since used up some of that cash bottom fishing for Portal Software and a couple of other software companies. This selling has caused a poster to call me a raving trader, a liar and a cheat. As I have said before, there is nothing wrong with being wrong as long as you do something about it as soon as you realize your mistake. My optimism had led me to have too much margin and prudence said that something needed to be done about it. Since October 31, NASDAQ has lost 31% and my portfolio has lost 47%. Had I not sold, I probably would have gotten a margin call the week that G* crashed because, it was (and is) a large part of my portfolio and below 4 or 5 dollars it is no longer marginable. I am 62 and I have no intention of ever going back to work. This dictates prudence.

My current portfolio consists of 12 Telecosmic stocks. I believe we must be nearing a bottom but if not, it's not a problem for me because I have sufficient cash to live on, at a minimum, for two years without any additional selling thanks to my November sales. I now have to decide whether to keep the cash or to go bottom fishing. These Greenspan rate games took what, six months to get us to this stage? It will take another 6 to 9 months to undo the damage that this man has done (Bush should just plain fire him!). This dictates prudence. I think the only buying to be done should be well thought out bottom fishing until it becomes

totally clear that the bottom has arrived and that we are back on an upswing. As Peter Lynch says, one of the great errors people make is that they don't believe that a stock can go to ZERO! G* certainly could. XLA looks that way despite all the Mirror Image hula baloo. Bottom fishing is just that, when the bottom drops out of a stock that has reported excellent revenues and earnings and Mr. Market punishes the stock with a 50% drop, then it is worth while considering buying it. But there is no rush. Sorry for the margin players, but lots of them will keep on getting margin calls and will continue to have to make distress sales. This will depress prices beyond reason and create buying opportunities. As Warren Buffett is fond of saying: "The Lord and the market help those that help themselves. The Lord forgives those that do not know what they are doing but the market does not." Excellent advice for times like these. So much for defense.

Now for offense. If you can hold on to your good stocks without risking a margin call, HOLD ON TO THEM. The particular number that Mr. Market puts on stocks on a day by day basis does not mean zip. Ignore WALDO. Check your own finances. That is the only guide that might force sales as it did for me in November. If you have solid Telecosmic stocks, then the upside after all this Greenspan/Fed induced foolishness is past, is terrific. Internet usage is growing by leaps and bounds. Carriers are laying miles and miles of optic fiber, and more important, are switching to more efficient systems, away from SONET to Ethernet; away from bit-rate to lambdas. Satellites now provide data service as well as voice, at least in North America. Wireless is becoming more efficient with CDMA, G3 and this new radioOne from Qualcomm which lets handset makers reduce the form factor or upgrade the capabilities. More users are switching to broadband. Lack of broadband access is not caused by lack of demand but by a lack of supply and foresight on the part of the Telcos.

A word of warning. Buy solid Telecosmic stocks but stay away from the Chimeras. A Chimera is a mythological creature, part human and part a variety of animals. In investing, Chimeras are all those stocks that don't have solid fundamentals: Earnings, earnings and earnings; revenue growth; real products; based in the USA where they MUST comply with SEC regulations. Two very obvious GTR Chimeras are LNOP and XLA. Both are offshore, neither has a product. Well, XLA owns a company that has a product but there is no guarantee that you will get zip when the IPO happens (how many shares of the GBLX spinoff did you get? I got ZIP!).

Both are offshore. Terayon has product but with an endangered life span and it also resides off shore. You will probably ask about ARMHY, yes, that too is offshore and that is probably one of the reasons institutions have not been buying. You need institutional interest for the price to really take off. But ARMHY has a solid product and value chain going for it.

If I don't talk to you before then, Merry Xmas and a Happy and Prosperous New Year!

Denny

"Demand creates queues. Supply gets rid of them."

[Software Times](#)