

Posted to the Gilder forum - November 28, 2000

How to face a correction

Ken:

This correction is a lot worse than I expected. Mr. Market, a short while ago, was in love with dotcoms, Gilder, technology, growth, and anything that was too complicated for the average man to understand. Then, all of a sudden, Mr. Market realized that it had driven valuations past all realistic expectations and it did an about turn. It popped the bubble and, without looking at real growth possibilities of individual companies, decided that anything with a P/E above a hundred had to be brought down a peg or two.

The psychology is quite different in bear and bull markets. During bull markets, no one can do wrong. Anything you do, be it stupid or not, is bound to bring you some profit. People think that stocks go up because they are bright people who know how to pick the right thing. In this bullish atmosphere, I doubt if people check if they are getting the best possible returns. Who cares, I'm making more money than ever before in my life (sounds a lot like stuff I said last year ;-). Then the bear market sets in and everything drops. But it's not our fault, look how brilliant we were just a few months ago. We need a scapegoat, the more visible the better. Actually, GG makes one hell of a scapegoat. After all, he created the bubble just like Gore invented the Internet! We also need life vests. It seems that in bear markets more and more people turn to Technical Analysis. After all, this is based on true facts, yesterdays prices. No fanciful chimera of abundant lambdas. No. Just the facts! Funny thing is, when a TA looks at a chart that is pointing down, he concludes that it will continue to point down. No chance in it ever changing direction unless it finds "support." Support is what someone was willing to pay for the company some time back, maybe a year or two ago, when possibly the products were different, the market was different, the management was different and the height of the hemline was different. No matter, if someone paid that price then, that is support now. You can see that this kind of TA is a self fulfilling prophecy up to a point.

So Mr. Market is creating bargains for us. But, as Jesse Livermore, the greatest speculator of them all, recommended, don't fight the tape, wait till prices start to go back up before you start to buy.

My stated intention was to hold. I have changed my mind in some cases because the correction is much worse than I expected and I figured that it calls for a change of tactics but in synch with my LTBH strategy. I sold several stocks, mostly with good profit, but which are not recognized gorillas (MUSE, NTAP, AMCC, PMCS, ALTR, XLNX, PWER, PWAV). I have held on to known gorillas (JDSU, QCOM, ARMHY, EMC) and to some that I figure I might as well ride out (GSTRF, GX). I have been adding aggressively to PRSF (under \$7) and nibbling at AVNX. I haven't had such a large cash position since November 1998.

Denny

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