Posted to the Gilder forum - November 23, 1999

Thanks RJA!

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posted: Tue Nov 23, 1999 7:30pm
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subject: Denny's Pearls

The following are excerpts from some of Denny's posts over the past 30 days!!! I would have gone back further, but I have to pack for Thanksgiving in Colorado. I wanted to thank Denny and everyone else who have made this forum such an exceptional learning opportunity. Denny, thanks for the time and energy you have devoted to this board. You are an invaluable resource!

RJA (Bob)

• Now, please, don't get me wrong, I am not a market timer, I do not look at charts to make decisions. But when you do a bit of fundamental analysis and you discover that a company is losing money, but has technology with high potential, then there is time enough to get on the band wagon when earnings first turn positive or even later. The important thing is to be ahead of the herd, but not by too much.

• Tracking stocks remind me of The Strange Case of Dr. Jekyll and Mr. Hyde, a curious pun of a name. What did Dr. Jekyll have to hide? The thing is, when Hyde died so did Jekyll. Apply this to AT&T, Quantum or any other business that has a good side and a bad side and ask, what does management want to hide? Will the bad side bring down the good side? Why does management not get rid of the bad side? Why does management insist on swimming with a stone around the neck? GE is successful because Jack Welsh insists that any part of the business that is not first or second in their trade must go. Remember, when Mr. Hyde's creditors come knocking, Dr. Jekyll will have to pay.

• On businesses that deal with end users: The ones with proprietary technology don't have that problem (Microsoft) and ones with superb execution and management also don't have that problem (Dell, maybe GBLX). But look what happened to UNIX OS vendors, look what happened to most PC makers (Packard Bell, AST, DEC). Microsoft and Dell are the exceptions that prove the rule :)

• When I hear people suggest that you buy a "safer" stock, one "that has not yet gone up" I ask, would it then not be even better to buy one that has tanked totally? Buy Pony Express, no downside risk, can't go lower, it's worthless.

• I don't like storage, at least not the players close to the end users.

• I'm long: AMCC, ARMHY, ATML, CNXT, POWI, RFMD, SSTI, XLNX.

• The object of the game is to make money. Money makes money. Therefore, concentrate your money where most money can be made.

• Please remember that the GTR is not a stock picking newsletter. It's purpose is to wake up our brains and make them think along the proper lines when it comes to technology. Add to this some market savvy and you will make great investments. Blindly buy any stocks GG mentions and you will only do so-so. Remember when GG mentioned Silk Road in a negative way and people asked if they should buy? Were they using their brains or not? GG recently mentioned that he was not yet sure which companies were ascendant in storage and he would welcome some help from the forum in finding them. Does this sound like we should all go out and buy all the companies mentioned in the November GTR? No way!

• However, there are always plenty of things that could go right for QCOM! Qualcomm has gorilla quality! I reiterate my 5 year target: 3083 1/16.

• Today is the first day of the rest of your life. Forget the past (at least, don't let it crimp your style), learn to swim (read all the old GTRs), and dive in (buy QCOM and JDSU)!

• You might have noticed that more hamburgers are sold than t-bone steaks, and while t-bone steaks are more expensive, and might even command a higher gross margin, the hamburger business produces more earnings than steak houses because volume trumps price. I like mass producers, millions of units shipped: Qualcomm, ARM Holdings, JDS Uniphase, RF Micro Devices.

• You cannot time the market and win, no way!

• Vertigo (hope and fear) can be harmful for your investments.

• I don't think you should worry about investment sentiment being too bullish. You should think about what you will do when the "market" drops 10 or 20 percent. Will you chicken out and sell out or will you beg borrow or steal to buy some more?

This is no idle or rhetorical question. You should have a plan for when the market drops as it inevitably will sooner or later. Over the last 200 years the market has grow by around 12% a year which means that some years were negative and others (like 1999) have seen extraordinary growth. But it should average out to 12% so the market will eventually have to dip. Some people will try to time it and most of these will lose. My own plan is to hold on and I hope I will brave enough to do it.

• I have said, and I maintain, that this rally will continue until at least June or July 2000. Sure there will be dips, it will be a roller coaster ride but then, I enjoy roller coasters!

• I have always had a large proportion of technology stocks in my portfolio but never before have I had such a large concentration in one industry, 90% in Telecosm, not all Gilder picks. But I try to stay away from those companies which might not have good and growing earnings. At this time, wireless service providers are fighting for market share and many have no earnings. On the other hand, the suppliers of these front line companies such as Qualcomm, JDS Uniphase, Conexant, RF Micro Devices, don't have to worry about price wars, instead they profit from the price wars of the primary service providers. These views have been reinforced by The Gorilla Game which helps justify the high valuations of gorilla type companies.

• I highly recommend reading "The Pleasure of Finding Things Out," the best short works of Richard P. Feynman.

• Disk drives are a commodity business, they must conform to some industry standard (SCSI, TCP/IP, etc.) so that they can work with any computer or network appliance. Look for companies that provide parts or chips (TXN?) to the disk drive makers and you will be on safer ground.

• I love legal doctrine, specially constitutions and legal codes (Roman, English common law, etc.), not that I know too much about them. I really enjoyed and highly recommend "The Tempting of America, The Political Seduction Of The Law" by Robert H. Bork. The U. S. Supreme Court lost a fabulous man when Reagan was not able to appoint Bork, or not willing to fight for it.

• I don't IPO.

• Global Crossing has excellent management, an excellent business plan, an excellent financial plan, first mover advantage and they even have a cable laying fleet and could therefore become the king of optic conduit. But no one in that business will ever become a gorilla, there is no proprieary architecture and the barriers to entry are not all that high for deep pocketed telcos and others.

• EMC is the king of local storage but who is to say that they cannot shift their business to Network Attached Storage (NAS). Remember that the news of the demise of IBM, MS, CISCO and Mark Twain, were all quite exaggerated.

• The object of the game is to stack up as many chips as possible within a comfortable risk zone. This will be different for every one of us and each one of us will implement some suitable strategy. Buy and hold is a very good strategy and it is what I am doing now. But you are bombarded with all sorts of opinions to take profits, to buy and sell derivatives, to buy on margin, to time the market, to read all sorts of news, attend all sorts of conferences, in short, to spend your time and money on many useless things (The Care and Feeding of your Broker 101). What the reading of good investment books allows you to do is to address these two problem areas, how to pick and choose the best stocks and how to avoid the siren songs. Despite all the books I have read (or because of it) my investment strategy is plain vanilla, I only buy long and sell from holdings. I do use some margin but that has more to do with cash management than with investing.

• It comes down to: "Do you or do you not trust GG's integrity?" I do. The following quote is from the November GTR: "Horribly underestimating this electro-mechanical miracle in my book Microcosm, I confidently predicted..." Only a totally honest person with no funny hangups will come out with such a statement about his own errors.

• "Buyer beware" should rule our lives! We must be responsible for our actions.

• Stocks for the Long Run by Jeremy J. Siegel. One Up on Wall St. by Peter Lynch. Reminiscences of a Stock Operator by Edwin Lefevre. Money, Whence it Came and Where it Went by John Kenneth Galbraith. Read The Gorilla Game! :)

• If you like your broker, buy him/her/it a subscription to the GTR. If you don't like your broker, fire him/her/it. But, DON'T sell QCOM unless you think CDMA is past its prime.

• My holdings, in order of performance are: ARMHY, SSTI, AMCC, RFMD, ATML, XLNX and PCMS.

• I think there is plenty of time to buy Lumenon. I would not buy before they show their first quarter with earnings. Before that it is more like gambling than investing. After their first quarter with earnings they should be good for 10 to 15 years, so what is the rush? Remember the story of the tortoise and the hare.

• The purpose of the game is not be be right or to be wrong. The purpose of the game (at last, the one I am playing) is to make money, lots of it, with as little risk as possible.

• Disclosure: I only buy long and sell from holdings.

• So far I have identified three Telecosm gorillas (at least, they look like gorillas or baby gorillas to me): Qualcomm, JDS Uniphase and ARM Holdings. Gorillas should be bought at the beginning of the tornado phase (see "The Gorilla Game" for a definition) which can be identified when earnings grow 100% year over year. That seems to be happening with my three gorilla candidates.

My conclusion is that "The Gorilla Game" is the perfect match for GG's GTR. The GTR points out the telecosmic companies that will disrupt the old markets and "The Gorilla Game" tells you when to buy them (not too early as would be the case if you only listen to GG). Qualcomm is a good case in point. GG pointed it out many years ago but until recently other stocks had much better appreciation. Had you invested in the current gorillas from 1993 to 1999 and then swithed to QCOM in June 1999, a few months after Ericksson capitulated, you would have much more than if you had invested in QCOM in 1993 and held it.

• I like to take a position in a company that I really like during the first quarter with earnings. I don't think that is too late. The gorilla game delays the initial purchase still further, until the beginning of the tornado, when earnings are growing at 100% year over year.

• So there is nothing altruistic about my forum contributions. I'm enjoying myself immensely. I am making more money than ever. I would never post anything here if I did not get interesting feedback. I have found several incredibly interesting books to read: "The Gorilla Game," "Adventures of a Bystander," "Surely you're Joking, Mr. Feynam," and many more including two by GG. This forum is an exchange of value for value between multiple players.

• Please stop thinking in a strait line and do a few mental jumps.

• In Terayon's business the standard is set by committee. Terayon could either go it alone and set a de-facto standard or could make a deal to be included in the upcoming standard. Terayon management did not feel secure enough to go it alone a la Intel or Microsoft so they made a deal which included giving away their patent rights. I don't know if they retained any part of them or not but that is immaterial for this discussion. Since Terayon is not the owner of the standard it can never attain the gorilla like valuation of companies that do own a standard, which does not prevent an investor from making money with Terayon, all it means that it will produce smaller returns that gorilla like companies.

• Maybe even more important, recognize your mistakes, your losers, and lose patience with them, get rid of them!

• "Eagles don't flock, you have to catch them one by one." -- Ross Perot

• There is no such thing as a stupid question but there sure are a lot of lazy people. My father told me a long time ago that it is better to ask and seem ignorant than not to ask and remain ignorant.

• BUT, we should NOT hold GG responsible for our actions, even if they are based on GG's recommendations. We should, we must, do our own due dilligence and take responsibility for our actions. We must use our own brains.

• The three most important things are earnings, earnings and earnings.

• I never buy IPOs, too much like gambling.

• Institutional ownership should be used with care just like insider trades. It is not all that significant, nowhere in the vecinity of earnings growth, revenue growth, earnings surprises and such.

• Some time ago I said that there were not enough barriers to entry in Global's business, all it takes is money, deep pockets. Global will depend on execution and nothing else to obtain and maintain a position as king of the conduit domain. This will not produce gorilla type valuations, only kingly valuations.

• If there are few institutional investors, sooner or later the rest of the herd will discover the stock and buy it. If there are a large number of institutional investors, you found this out too late to benefit you!!!!!!!

• Anyone who has to seek the help of the legal system is an underdog and often a loser (Sun? Netscape?). Rockefeller never did, Gates never did. I might be cruel but I side with Rockefeller, Gates and the rest of the winners.

• ...we should not follow GG blindly. He has no way of knowing the outcome when two or more Gorilla candidates enter a tornado. The Gorilla game recommends that we should buy a basketful of Gorilla candidates at the outset and then get rid of the ones that fail (become chimps or monkeys) and reinvest the proceeds in the real Gorilla.

• There is no way that Internet merchants will make any money until they find a way of charging for their services. Up to now they have not found it. Maybe one day they will and then it will make sense to invest in Internet merchant stock. Price wars often drive economic booms. The Internet price war is the mother of all price wars (when everything is free, how much cheaper can it get?) and it will drive the Internet to become the mother of all businesses. For now, until they find out how to make money, the Internet merchants will not make any profits but the infrastructure will continue to be built out. And the infrastructure suppliers, who are not in a price war, will make a bundle.

• But we must differentiate between infrastructure builders and infrastructure equipment providers and here the Gorilla Game concepts becomes very useful. To become a Gorilla, the prime requirement is to own: "a proprietary architecture a with high switching costs." Quite clearly, JDS Uniphase, Qualcomm and ARM Holdings belong to the Gorilla category. Companies that have good execution, first entry advantage and high barriers to entry, but have no proprietary architecture, are defined as Kings and Global Crossing, Globalstar and NextLink fall into this category. I am not sure where the other chip manufacturers fall: Analog Devices, Applied Micro Circuits, Atmel, Conexant, RF Microdevices and several others. Terayon I discount as an also ran because they gave away their patents.

• So far, I would say that Qualcomm, JDS Uniphase and ARM Holdings look like gorillas.

• Terayon is history after it gave up its patents.

• [The Gorilla Game] is one of the most important investment books that I have ever read. BUT, the gorilla game they describe happens in one part of the microcosm forest and I want to play the game in the telecosm forest. I don't want to be one of these generals that fights the last war.

• ARM is a people company where they encourage ALL employees to become shareholders through diverse stock option plans. I don't see how the story can get any better: 1.- High barriers to entry. 2.- Standard setter. 3.- No bricks and mortar high margin company twice removed from the end user. 4.- Employee ownership. 5.- Larry Tesler – director. 6.- Their industry, Telecosm, is just starting and should be good for 10 to 20 years.

• I have discovered that you can tell as many lies with accounting as with statistics! But accounting is a fascinating subject and useful in the investment world. Just don't take figures at face value!

• My advice is that you should become very familiar with the GTR's Telecosm Paradigm by downloading many back issues and reading each one at least 3 or 4 times (or until you are fluent in Gilder-speak).

Next, read several basic investment books by people who have MADE MONEY in the market. My prime recommendation is "One Up On Wall Street" by Peter Lynch of Magellan fame. Then you will be ready to make your own decisions and take credit or blame where credit or blame is due! Welcome to the most exciting investment group around!

• I keep coming back to this but I think it needs to be stressed again and again. Those companies that are closest to the buying public are likely to fall into price wars that benefit the buying public and benefit the munitions makers that supply the price warriors. If this is true, equipment suppliers like JDS Uniphase deserve much higher valuations than service providers such as Global Crossings. My feeling is that the market is right most of the time and certainly right over the long run. But analysts, well, that is another story—please note that George Gilder is the exception that proves the rule.