# Rationalizing the "BUST" of the Technology Sector

Market Analysis Semi-Annual Newsletter

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The euphoria for technology stocks turned from enthusiasm in the first quarter, to doom and gloom over the last few weeks. Many are scratching their heads as technology and telecom stocks fell from their lofty levels. The market feels almost like a desolate wasteland with battered and beaten up stocks looking never to recover.

In a sense, many stocks never will recover, because the hype, speculation and momentum driving them up are not likely to return in the near future.

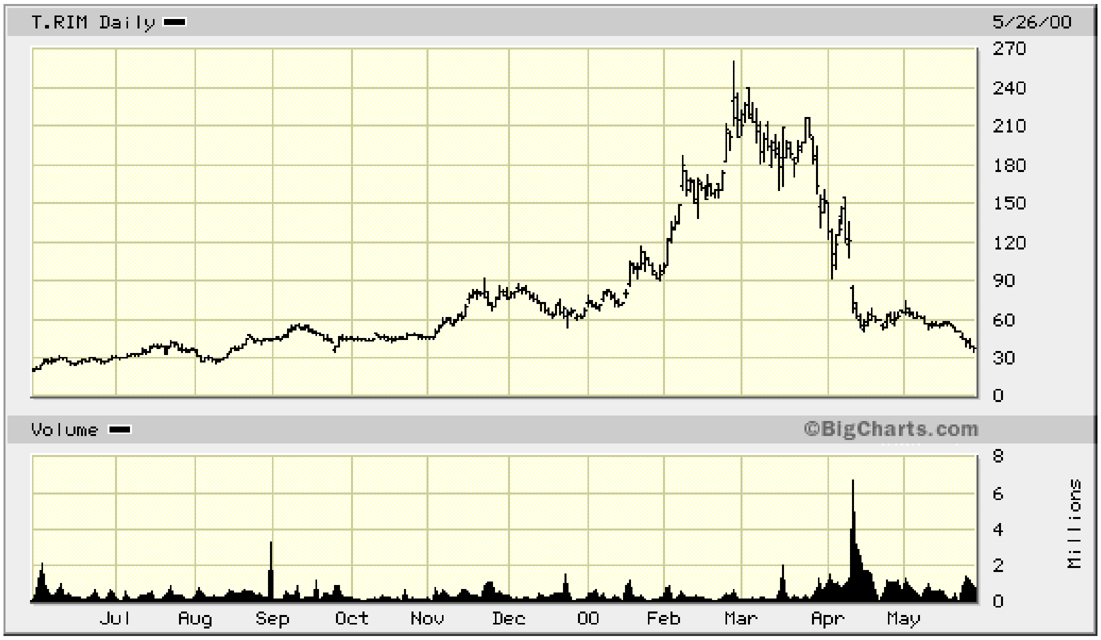
"Money easy come, easy go?" Take at the numbers below and that phrase appears to be an understatement:

| Company | April 7th Peak | Last Price May 26 | Change |
|---|---|---|---|
| Research in Motion | $122 | $37.60 | -69% |
| BCE Emergis | $108.10 | $56.55 | -48% |
| ATI Technologies Inc. | $28.90 | $13.90 | -52% |

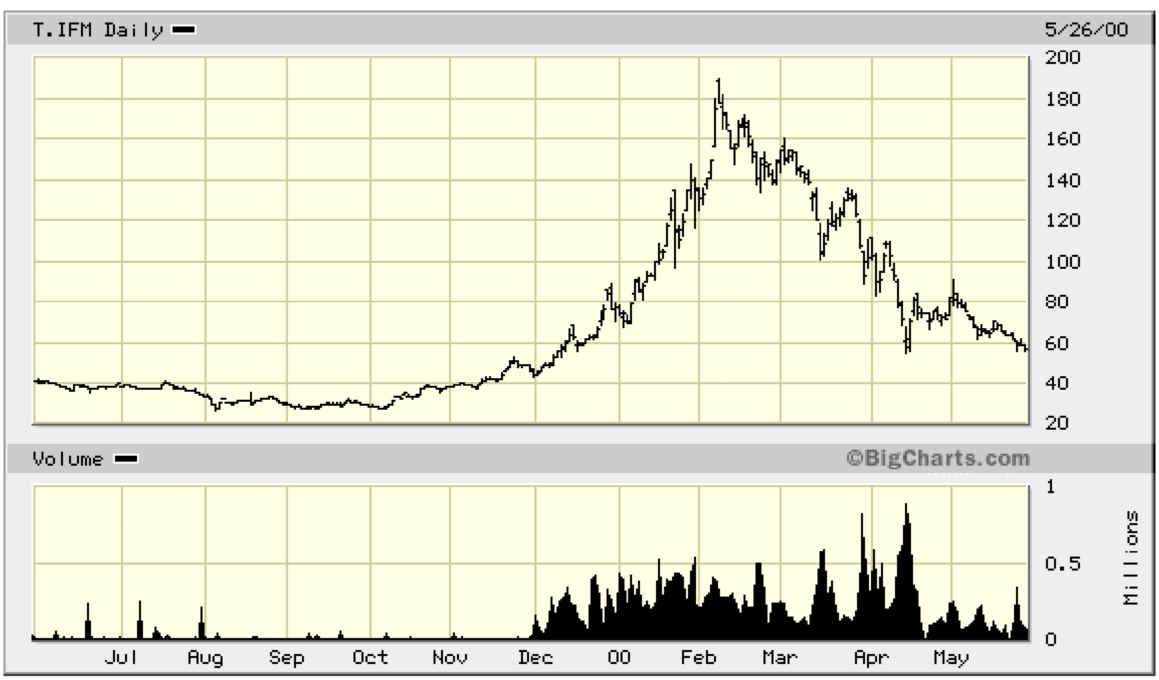
The above stocks were chosen because some represent "fluff", while others may have been sold because of an over-reaction to bad news. Let us make a closer investigation on these stocks, to determine which stocks are relative bargains.

Research in Motion fell on the day earnings were announced. The stock fell as the company announced it would market a high-end e-mail pager that will compete with the Palm Pilot. For the short term, it is likely that the stock will have difficulty meeting expectations as marketing expenses for the new product increases considerably. More recently, Motorola announced a new pager similar to the RIM pager. With competition heating up considerably, do not expect RIM stock to rebound quickly.

(Note: All charts were created from http://www.bigcharts.com)

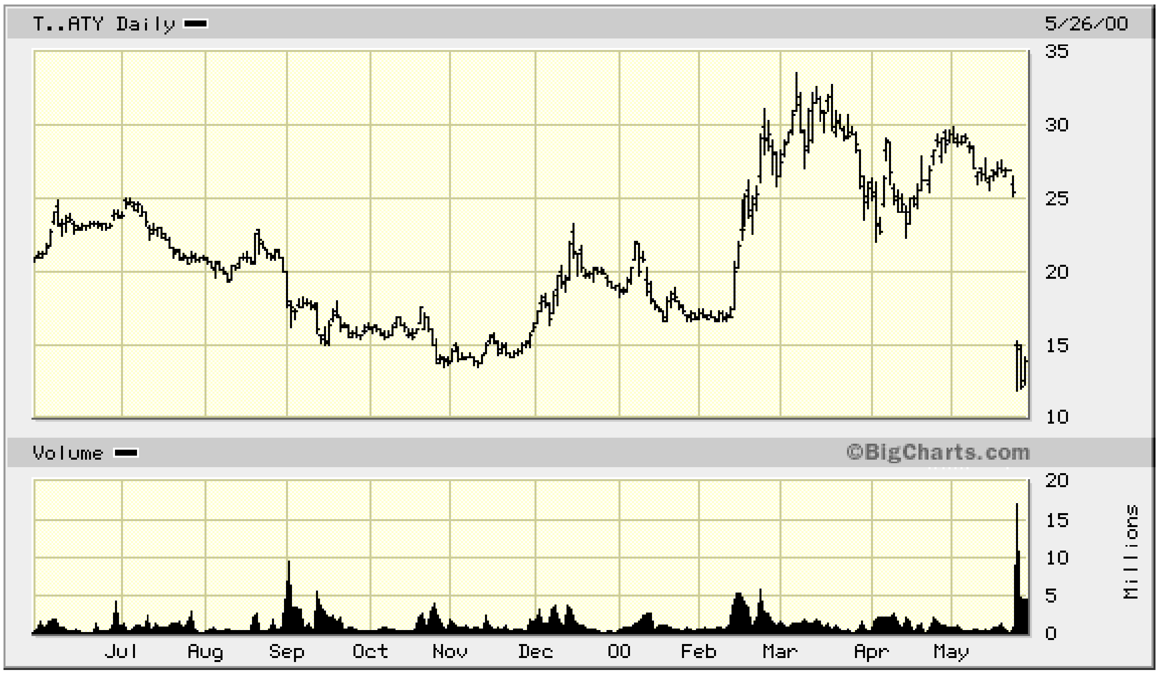



BCE Emergis, an e-commerce company that saw its shares fall "a mere" 48% in the last few weeks. Increasing losses are not something a stock should be making in today's unforgiving market. More recently, Emergis announced an aggressive expansion plan to provide some form of e-commerce initiative in the US health care or financial service sector. The sector is already quite competitive and will add to some uncertainty for the company in the short term.



From a technical viewpoint, BCE Emergis began its negative trend since February. It would be safe for investors to wait for the stock to find a bottom or to get into a trading range before considering an entry into the stock.

Finally, ATI Technologies Inc., the largest supplier of computer graphics cards, TANKED. After pre-announcing poor earnings due to parts shortage, it is now apparent that the company will have difficulty meeting demand. Worse will be that other graphics companies are selling their product at significant discounts, making it difficult (if not impossible) for ATI to raise prices.




For the short-term, expect ATI to rally, only to fall within a trading range in the low to middle teens. For long-term shareholders, ATI looks attractively valued, as new products will be in the pipelines later this year. For 2001, the company is well positioned in the game console market.

### So Which Stock(s) Do I Buy?

Are *any* of those stocks worth buying? Perhaps one should avoid *all* of them, for reasons that exclude the absence of euphoria for technology stocks. The only rationalization that can used to explain the decline in these stocks is that the euphoria clouding the judgment of investors is gone. Back then (only a month ago!) investors were far more forgiving for bad news or uncertainty.
The bad news that justified a sell-off for ATI, BCE Emergis, and RIM were:

- Competition will increase
- Costs for marketing into the US markets will increase
- Rising revenue may not necessary result (at least for the short term)

There is no room for any negative news, because investors are unforgiving. One might be tempted to think of the recent declines in the market as a “correction”, but the negative sentiment persisted for too long to label it as such.

Notice my arguments focus mainly on the “short-term”. It would appear likely the battered up stocks are in the “bargain basement” category, but investors will need to be patient with them. They also need to follow these stocks carefully to evaluate the progress of the marketing efforts (in the case of RIM), the logistics of growth by acquisition (in the case of BCE Emergis), and the certainty that new products are in the pipeline (in the case of ATI Technologies Inc.).

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