



CONTRARILY CORRECT

By CHRISTOPHER BYRON



*Lucent CEO
Patricia Russo
- AP*

December 30, 2002 -- HAVE you noticed how the learned middle-of-the-rovers among us - America's Opinion Class, shall we say - have all been harrumphing that 2002 was supposedly the Year of the Fraudster CEO? Well, I think they are wrong.

More so than anything else, 2002 seems to me to have been the year when conventional, middle-of-the-road thinking deserved to have been booted off the stage. Almost nothing those folks predicted, about anything, came true. The economy didn't recover; homicide bombers didn't turn up at the mall; the Beltway sniper didn't turn out to be a member of al-Qaeda; and bringing cases against crooked CEOs didn't make the stock market recover.

Yet I, for one, consider it good news when this sort of thing happens. When the Opinion Industry is demonstrably wrong, yet no one seems to notice or to care, opportunities present themselves for those of us in the bleacher seats of conventional thinking. And I am here to report, as 2002 draws to a close, that from the contrarian perspective of the stock market and investing, 2002 was indeed, as Sinatra would have crooned, a very good year.

Of course, if you had followed the "safe" route and adopted the "buy on the dips" investment approach of one or another of Wall Street's perma-bulls - as, for example, the Munchkin-like Abby Joseph Cohen of **Goldman Sachs & Co.** - you'd have a lot less money in the bank today than you started the year with. A lot less.

ANYONE who bought the 30 stocks of the Dow Jones industrial average on the first trading day of January 2002, and then sold them all this last Friday, would be looking at a loss of 18 percent on his or her money. And it would have been even worse if you'd bought the S&P 500 index, widely used as the ultimate Wall Street benchmark. By that measure, you'd have lost 24 percent on your money during the year.

Worst of all, you might have believed the seers who turned up almost hourly on CNBC as the year unfolded, telling us that the rout in Nasdaq had turned "technology" stocks into screaming buys. Anyone who bought the Nasdaq composite index at the start of 2002 would today be looking at a loss of 31 percent.

By contrast, if you'd simply turned off the TV, taken a deep breath, and asked yourself whether anything had fundamentally changed between 2001 and 2002 - and properly concluded "no" - then it would have been hard to deny that stocks would once again be going down - for the third year in a row.

PICKING individual stocks that were likely to fall - and fall sharply - was what this column was all about in 2002. And, generally speaking, we mostly turned out to be right.

It wasn't very hard, of course, when hundreds upon hundreds of companies still carried valuation multiples far in excess of stock market norms. Many of these companies had neither cash flow nor earnings to show from their operations, but traded instead like dot-com stocks of the 1990s.

Over the course of the year, the column zeroed in on 29 separate companies that seemed impossibly overvalued, offering reasons that often amounted to little more than basic common sense. They ranged from corporate giants like **Cisco Systems Inc.** and **Sears Roebuck & Co.** to a pipsqueak outfit in the condoms and medical syringes business.

If you'd done nothing on the basis of those columns but not invest in the companies discussed in them, you'd still be holding 100 percent of the money with which you began the year - which is pretty good, considering where the "experts" have wound up.

BETTER still, if you'd decided to place a bet that they would indeed fall over time, and to that end engaged in a so-called "short sale" of each stock on the day the column appeared, then closed out your positions for all of them last Friday, you'd have made a net 29 percent profit on your money - this during a year when the market as a whole was moving sharply in the opposite direction.

A few of the columns missed the mark. In late October, we published what amounted to a living obit on **Lucent Technologies Inc.**, the gravely troubled telecom equipment company, when the stock was at 73 cents per share. By last Friday the price had climbed to \$1.29, for a two-month gain of nearly 77 percent. I still think Lucent is doomed, but the market so far disagrees.

Triarc Companies Inc., **Tyco International**, **Marvel Enterprises Inc.** and **American Business Financial Services Inc.** likewise all looked like losers to me, but have instead risen by anywhere from 8 percent to 29 percent since I wrote about them. Conversely, **Wal-Mart** looked like a winner to me when I wrote about it in mid-November. But the Thanksgiving retailing slump hit that company as well as the rest of the sector, with the result that Wal-Mart as of last Friday was down 8 percent when I said it would be up.

Yet most of the companies I wrote about did exactly what I said they'd do: fall - and fall steeply.

THERE was **Diomed Holdings Inc.** of Massachusetts, which claimed to be in the "micro-invasive medical procedures" business. Diomed had hired a Canadian stock promoter who held a big chunk of the company's stock in the Cayman Islands, which seemed a big red flag when I wrote about the company in March. The stock was trading for \$7 per share then. Today it sells for 22 cents.

Or what about **Taser International Inc.**, which makes stun guns and was selling for \$17.75 per share on anti-terrorism hype when I wrote about the company in May? In the column I argued that the worldwide market for stun guns wasn't big enough to support a price even a fraction so rich as Taser was then enjoying.

The company got completely torqued out of shape - but since the column on Taser first appeared, the company's stock has lost 77 percent of its value, and was selling last Friday for barely \$4 per share.

In a similar spirit, consider **MediHut Inc.**, which had some very fishy-looking accounting on its books when I said the stock was overpriced at \$3.30 per share last February. Since then, the Securities and Exchange Commission has opened an investigation, the FBI has raided the

company's premises, and the stock has tumbled by 60 percent - and was selling last Friday for \$1.30 per share.

Likewise, there's **Edison Schools Inc.**, which has struggled with a fatally flawed business plan that I've been blasting in print from the moment the company went public three years ago. We returned to the subject last May, and since then the company has lost another 61 percent in value, and is today selling for barely \$1.50 per share.

Plenty of big-cap stocks have gotten beaten up as well. **Imclone Systems Inc.** has tumbled nearly 64 percent since I warned early last January that insider trading in its shares the previous December was destined to turn the firm into the "first big Wall Street scandal of 2002."

Vivendi-Universal, Kmart, Revlon, Martha Stewart Living Omnimedia Inc., AOL Time Warner and Cisco Systems have all lost close to 30 percent or more in value since they were nailed in various of my columns, for one reason or another, as overpriced.

WHAT'S ahead for 2003? With interest rates at the inflation-adjusted equivalent of zero, and no growth-stimulating ideas coming from Washington except more of the sorts of tax cuts that didn't work the last time, it's hard to see how the economy can do much more than limp along while the stock market struggles to keep from falling further.

All in all, it's a perfect environment for the "experts" to cheer each new hiccup as the start of the market's next major new advance. In other words, another good year for those of us in the bleachers to pursue our remote but profitable work of picking overpriced stocks that are riding for a fall.

See you in the new year.

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