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Telecom Overview: Networks Lay the Tracks for Killer Apps

Wall Street throws the term “killer app” around as if everyone knows exactly what it means. Ironically, of course, I hear Wall Streeters use it wrong all the time. So today, I want to look at the concept of “killer app.”

Killer, according to Dictionary.com, is defined as:

- *Slang.* Having impressive or effective power or impact; formidable: *had a killer smile; made killer profits.*

App is short for application, which of course is the noun form of apply and, according to Dictionary.com, is defined as:

- To put to or adapt for a special use.

Put the two together and you get something along the lines of leveraging a utility (as in, something utilized, not your electric company) to powerful effects. And that’s pretty darn accurate to define what a “killer app” actually is.

As a matter of fact, Dictionary.com also has two entries for killer application itself, or killer app:

- Definition: any computer program that is so useful or great that people feel they must have it; also called *killer app*. Etymology: killer ‘impressive, excellent’ + (computer) application.
- The application that actually makes a sustaining market for a promising but under-utilized technology. First used in the mid-1980s to describe Lotus 1-2-3 once it became evident that demand for that product had been the major driver of the early business market for IBM PCs. The term was then retrospectively applied to VisiCalc, which had played a similar role in the success of the Apple II. After 1994 it became commonplace to describe the World Wide Web as the Internet’s killer app. One of the standard questions asked about each new personal-computer technology as it emerges has become “what’s the killer app?”

The definition I like to use, though, is that a killer app is something that takes existing technology and leverages it past a tipping point until the app becomes so mainstream that it has a meaningful impact

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on the economy and/or society. The term may be new, but the concept isn't. Consider the wheel, and where it led. In the modern era, think about the gas-powered engine. It was a powerful technology that was able to be applied to cars, boats and planes. But the killer apps for gas-powered engines also include lawnmowers, weed eaters, generators and all kinds of other equipment -- tractors, cranes, semis (the 18-wheeler, not the silicon wafer).

The Power of the Network

The foundation for all the communications killer apps is simply the network itself. From its roots as a Morse code-tapped telegraph network, the world has constantly leveraged the network to powerful effect by layering new applications on top. More than a hundred years ago, Alexander Graham Bell figured out how to use the network to send voice signals and enabled people to talk from disparate corners of the globe. Others figured out how to send nearly real-time stock prices over the network using what they called a "ticker tape" technology (the origin of "tickers").

Now, we're undergoing a major acceleration in the development of killer apps in the communications sector, and almost all are being built upon the Internet. Internet protocol (IP), the technology by which packets of bits and bytes are sent from one end-user to another or to the network, is our modern equivalent to the original Morse-code telegraph and telecom networks. Because the world's communications networkers have been standardized around IP, anybody with a laptop can tap into or even create a new killer app. Once the IP standard was established and hit a tipping point, the floodgates of innovation were opened -- and we're just now realizing the power of the standardized networks' ability to enable new killer apps.

We're talking about email. Instant messaging. Web sites. Newsletters. Streaming stock quotes. Bank balance transfers. VoIP, that's voice-over-Internet protocol. Video conferencing. Blogs. Search engines. Comparison shopping. Peer2Peer networking.

Consider this: What do you use the Net for each day, week or month that I haven't mentioned? I bet you can think of dozens more applications.

And now we're seeing wireless networking being moved to the same standardization based on IP. I sent the final version of today's newsletter from my laptop using Verizon's new NationalBroadband wireless network while aboard a train to Boston. Somewhere out there some visionaries are already dreaming up the next app, but few of us yet conceive of the implications of the wireless broadband IP network.

Notice how all the aforementioned killer apps stem from fixed-place networking? What new applications will develop once a significant number of people can carry their ever-lighter and more-powerful laptops with them and remain connected to the Internet, anywhere at anytime?

Around the world, we're already seeing increasingly powerful pocket-sized cell phones that leverage wireless broadband connectivity. Do you text message on your cell phone yet? Do you watch movies on it? Do you chat with a holographic 3-D image of your grandmother when you call her from your brother-in-law's house on Thanksgiving Day? You *will!*

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And with all the capital flooding the markets and available to tech companies, all the real-time information zooming back and forth around the world, all the efficiencies being wrung out of the economy and all the creative energy of the world working together, these apps are coming faster than anybody realizes. And there's going to be a lot of money to be made along the way – including for investors.

As we kick off 2006, I'll be digging for companies that are driving this revolution forward and adding some of those stocks to the model portfolio.

On the Trail of New Trends

Last week, I looked at [four stocks](#) that I like for 2006, but which are not yet in the model portfolio. Since then, two of these stocks have made big moves, albeit in different directions, as news affected each name.

PortalPlay (PLAY:Nasdaq) popped when it was upgraded by Citigroup on Thursday from hold to buy, with commentary that very closely reflected my analysis last week -- that the company is likely to report booming numbers and guide higher when it reports early next year. And the stock has jumped more than 10% since I wrote about it last week. In the coming weeks, I'm going to increase the scope of the newsletter and model portfolio to include an increasing amount of coverage on broader tech trends and stocks. PortalPlay and the ever more ubiquitous iPod are very much a part of those tech trends.

On the other side of the spectrum, **Best Buy** (BBY:NYSE) reported disappointing third-quarter earnings Tuesday, and the stock took a big hit, dropping more than 10%. It is now down about 10% from last Wednesday's close. In my bullish thesis, laid out last week, I noted that Best Buy was likely a major beneficiary of the tech-centric consumer-spending spree this holiday season. And indeed, the company is growing the top line nicely and seeing strong demand for its wares. The big problem with the quarter, though, is that Best Buy spent too much, too quickly, ramping up new service initiatives like home-audio installations and its "Geek Squad," which provides computer and tech support to Best Buy customers.

Both of these initiatives are service-oriented differentiators for Best Buy, but both require upfront investment as the company hires people. Given that ramp up in selling, general and administrative (SG&A) costs, operating margins fell and the company missed expectations on the bottom line. But I'm still holding calls in the stock in my fund and plan -- as I said last week -- to remain long this name until it becomes clear that the consumer really has weakened. And, again, as I've often noted, that doesn't appear to be the case anytime soon.



Cody Willard

The Telecom Connection Portfolio

Company Name	Date Initiated	Cost Basis per Share	Number of Shares	Amount Invested	Current Price	% Gain/Loss	IXTC at Buy Date	IXTC Return
A D C Telecommunications								
ADCT	12/10/2003	\$ 19.99	856	\$ 17,107.16	\$ 23.30	16.59%	\$ 169.05	11.98%
AudioCodes								
AUDC	11/12/2003	\$ 10.53	1800	\$ 18,959.00	\$ 10.56	0.26%	\$ 170.79	10.84%
Avanex								
AVNX	08/13/2003	\$ 3.91	4000	\$ 15,658.00	\$ 1.04	-73.43%	\$ 148.07	27.85%
Cisco Systems								
CSCO	02/07/2005	\$ 18.03	1300	\$ 23,440.00	\$ 17.69	-1.89%	\$ 184.29	2.72%
Dycom Industries								
DY	06/23/2004	\$ 24.15	900	\$ 21,736.00	\$ 21.64	-10.40%	\$ 178.76	5.90%
eBay								
EBAY	11/25/2005	\$ 46.46	500	\$ 23,230.00	\$ 45.29	-2.52%	\$ 189.11	0.11%
Emcore								
EMKR	03/10/2004	\$ 4.31	1500	\$ 6,465.00	\$ 6.57	52.44%	\$ 187.94	0.73%
Ericsson								
ERICY	11/10/2005	\$ 32.75	(300)	\$ 9,825.00	\$ 34.55	-5.50%	\$ 183.68	3.07%
F5 Networks								
FFIV	10/13/2004	\$ 43.81	800	\$ 35,051.00	\$ 52.82	20.56%	\$ 182.21	3.90%
Finisar								
FNSR	07/09/2003	\$ 2.01	6000	\$ 12,035.00	\$ 2.12	5.69%	\$ 158.68	19.30%
Corning								
GLW	09/09/2004	\$ 15.35	1000	\$ 15,351.00	\$ 21.27	38.56%	\$ 174.75	8.33%
IDT Corp.								
IDT.C	04/09/2003	\$ 16.08	600	\$ 9,645.36	\$ 11.62	-27.72%	\$ 119.80	58.02%
JDS Uniphase								
JDSU	09/26/2002	\$ 2.07	8500	\$ 17,635.00	\$ 2.68	29.17%	\$ 92.19	105.35%
Juniper Networks								
JNPR	02/09/2004	\$ 25.05	1000	\$ 25,054.00	\$ 21.78	-13.07%	\$ 194.99	-2.91%
Motorola								
MOT	06/17/2004	\$ 18.40	500	\$ 9,200.00	\$ 22.72	23.48%	\$ 179.63	5.39%
MRV Communications								
MRVC	08/20/2003	\$ 2.46	8000	\$ 19,680.00	\$ 2.16	-12.20%	\$ 150.78	25.55%
Microsoft								
MSFT	09/26/2002	\$ 24.21	1000	\$ 24,206.00	\$ 27.09	11.91%	\$ 92.19	105.35%
Nortel Networks								
NT	09/21/2005	\$ 3.18	5000	\$ 15,900.00	\$ 3.07	-3.46%	\$ 189.98	-0.35%
Polycom								
PLCM	04/09/2003	\$ 12.55	1000	\$ 12,549.48	\$ 15.53	23.75%	\$ 119.80	58.02%
SanDisk								
SNDK	04/06/2005	\$ 37.19	500	\$ 18,593.00	\$ 51.23	37.77%	\$ 179.86	5.25%
Sun Microsystems								
SUNW	10/02/2003	\$ 3.66	2200	\$ 8,052.00	\$ 4.42	20.77%	\$ 159.65	18.58%
Tekelec								
TKLC	10/12/2005	\$ 15.24	800	\$ 12,193.00	\$ 13.06	-14.31%	\$ 183.26	3.30%
Tellabs								
TLAB	09/08/2004	\$ 8.62	2700	\$ 23,277.00	\$ 10.95	27.01%	\$ 172.12	9.99%
Verizon								
VZ	10/19/2005	\$ 30.20	700	\$ 21,140.00	\$ 30.54	1.13%	\$ 178.50	6.06%

(Model Portfolio performance continues on the next page)



The Telecom Connection Portfolio – Performance

Total Average Return	-8.98%	Performance results listed here reflect values of stocks as of the close of the most recently completed trading day, and do NOT take into account dividends paid, interest earned or commissions. Results are updated overnight and posted prior to the market open the following business day. Sales are taken from the most recent purchase of that stock unless otherwise stated. The 2005 YTD Return figures reflect changes since the beginning of 2005. The Total Average Return figures reflect changes since inception on 9/26/2001.
2005 YTD Return	-11.21%	

Nasdaq Telecom Index Performance

	Portfolio Inception	Open Price	Current Price	% Gain/Loss Since Portfolio Inception	2005 YTD Return
Nasdaq Telecom Index (IXTC)	8/14/2001	\$ 270.32	\$ 189.31	-29.97%	-4.66%

At the time of publication, the buy-side firm in which Mr. Willard is a partner was net long: ADCT, AUDC, AVNX, BBY, BKHM, CSCO, DY, EBAY, EMKR, FFIV, FNSR, GLW, IDT.C, JDSU, JNPR, MOT, MRVC, MSFT, NT, PLAY, PLCM, SNDK, SUNW, TLAB, VZ. Net short ERICY.

To see the full Telecom Connection model portfolio, including closed positions, visit <http://www.thestreet.com/k/tc/portfolio.html>.



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