



Issue 202: Wednesday, February 15, 2006

## In This Issue

Page 1	Telecom Overview: Telecom Blasts Off
Page 3	Portfolio Moves
Page 4	The Telecom Connection Portfolio

### Telecom Overview: Telecom Blasts Off

The teleconomy appears to be heating up, and my own unscientific gauge of confidence among companies and people in the teleconomy is as high as I can remember since the tech bubble popped in 2000.

In fact, I'm seeing so much activity, investment and demand out there that I'm actually growing increasingly concerned that 2006 could turn into an overheated free-for-all reminiscent of the bubble itself (though certainly not to same extent).

**Verizon** (VZ:NYSE) and **SBC** -- which now include Worldcom and **AT&T** (T:NYSE), respectively, and account for about 40% of the telecom capital expenditures in this country and nearly 20% of global telecom capex -- are both picking up the pace of capital expenditures on wireline and optical technologies as 2006 wears on.

So at the very least, I expect 2006 to be a strong year for the teleconomy.

#### Adding Up the Estimates

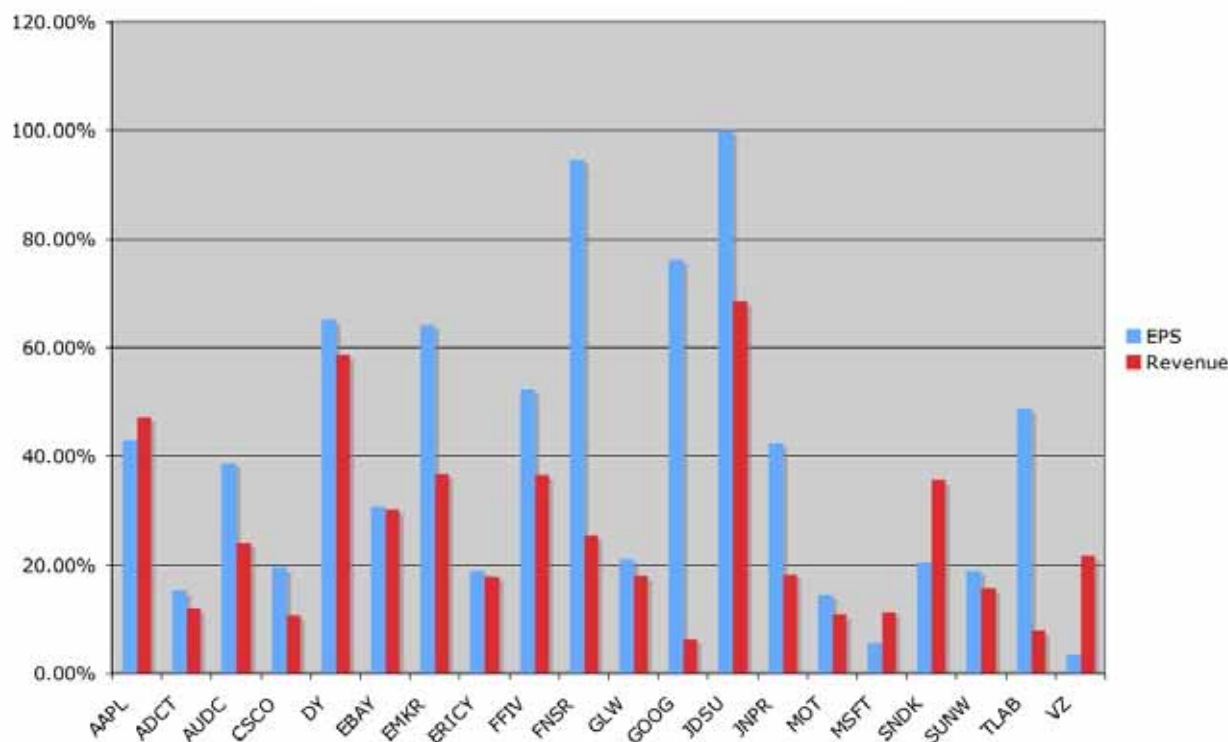
Given the above setup, there's a tremendous risk/reward to being long telecom and tech stocks as earnings growth continues to come in stronger than most anyone expects.

Take a look at the following chart that outlines consensus growth expectations for the top and bottom lines of most of the companies in *The Telecom Connection* portfolio, as well as a few other names.

*(Continued on the next page)*

**PLEASE SEE IMPORTANT LEGAL DISCLAIMER ON LAST PAGE**

## Full-Year 2006 Growth Estimates



Source: CLWillard Capital, Yahoo! Finance

The data in this chart come from consensus estimates from brokerages such as Goldman Sachs or Pacific Crest that follow these stocks. They base their estimates mostly on guidance from these companies, though in reality they also take into account what other analysts are expecting, all of which works to make the numbers incestuously skewed.

As you can see, most of the analysts expect the vast majority of the companies highlighted to show top-line growth of somewhere between 20% and 30%, and bottom-line growth of even more than that. And that's based on the assumption that the broader economy will grow about 3%-4% this year, just as it did last year. And that's based on the assumption that the capital expenditure budgets from the aforementioned Verizon and AT&T will be about in line with each company's respective guidance of about 5% this year overall.

"But Cody," you're probably saying, "didn't you just outline how it appears that Verizon and AT&T are ratcheting up their capex budgets so far this year? And didn't you just explain how the broader economy seems to be accelerating, perhaps even overheating?"

Yes! And that's my point: The stocks highlighted in the chart (and most other telecom stocks) would likely climb higher in 2006 simply based on the consensus projections from a bunch of sell-side analysts, who we all know have a terrible track record of projecting earnings. If they're anywhere close to right, most telecom indices would likely rise 10%-15% or so. But if the economy -- especially the teleconomy -- actually heats up this year, those estimates in the chart above would be too low.

*(Continued on the next page)*



Issue 202: Wednesday, February 15, 2006

All of this analysis boils down to a risk/reward that favors being very long telecom in 2006, especially telecom stocks that can show outright secular growth. And I'm going to continue to tweak the portfolio to increase exposure to such stocks and move away from less-stellar fundamentals.

### Portfolio Moves

First off, I want to remove **Nortel** (NT:NYSE) from the portfolio. The company is going to see some decent top-line growth this year and is continuing to rationalize its businesses, which should result in some leverage to earnings growth this year. However, there are still many legacy issues, and even **General Motors**-like pension, health care and other balance sheet issues. Given that I want to focus on pure growth and clean stocks, it's time for Nortel to go.

I also want to sell **IDT** (IDT:NYSE), which has no expected earnings growth. It's been nearly six years since the tech bubble popped, and IDT is still resting on its laurels. The stock is trading just about at net cash value. But without earnings, much less earnings growth, there's no reason for it to trade above its net cash. So IDT is out as well.

Finally, I also want to sell one-third of the Verizon position. Obviously, because Verizon is such a giant company and has secular declines in its core copper telecom business, earnings growth is going to be tough to show. That said, the reason I added the stock to the portfolio when it was 15% lower than it is right now is because the stock was trading at a 5% yield and the market had trashed it by some 30% in the last few months. That's no longer the case, and I want to take some profits on the position.

Now for the buys.

I want to double the **Google** (GOOG:Nasdaq) position. The stock has dropped about 7% since I added it to the portfolio a couple weeks ago. I believe that's an opportunity to add more because business is strong and Google, the single fastest-growing company in history, is likely to show more huge growth this year.

It's time to double the **Apple** (AAPL:Nasdaq) position as well. The driver for Apple's stock in 2006 is going to be market share in the computer business, and I think the company is likely to double its market share this year. That means it simply needs to take 2-3 percentage points of market share out of 100 percentage points to get to more than 5% total. At 5% market share, I'd expect the stock to trade at more than \$100 a share.

Finally, I want to double the **Corning** (GLW:NYSE) position. 2006 looks like it's going to be a big year for Corning's two most important businesses: LCD flat-panel glass and fiber-optic cabling.

I'd like to add even more **Tellabs** (TLAB:Nasdaq), **F5** (FFIV:Nasdaq) or **Juniper** (JNPR:Nasdaq), but I already have sizable positions in those names for now. I'm also getting ready to pull the trigger on two new telecom names in the next week or two, once I finish doing some homework on the stocks. So stay tuned.



Issue 202: Wednesday, February 15, 2006

## 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
Apple AAPL	02/09/2006	\$ 69.21	200	\$ 13,842.00	\$ 69.22	0.01%	\$ 203.51	0.78%
ADC Telecommunications ADCT	12/10/2003	\$ 19.99	856	\$ 17,107.16	\$ 25.68	28.50%	\$ 169.05	21.33%
Audiocodes AUDC	11/12/2003	\$ 10.53	1800	\$ 18,959.00	\$ 12.27	16.49%	\$ 170.79	20.09%
Cisco CSCO	02/07/2005	\$ 18.03	1300	\$ 23,440.00	\$ 19.94	10.59%	\$ 184.29	11.29%
Dycom DY	06/23/2004	\$ 24.15	900	\$ 21,736.00	\$ 24.17	0.08%	\$ 178.76	14.73%
eBay EBAY	11/25/2005	\$ 46.46	500	\$ 23,230.00	\$ 40.65	-12.51%	\$ 189.11	8.46%
Emcore EMKR	03/10/2004	\$ 4.31	1500	\$ 6,465.00	\$ 8.17	89.56%	\$ 187.94	9.13%
Ericsson ERICY	11/10/2005	\$ 32.75	(300)	\$ 9,825.00	\$ 35.46	-8.27%	\$ 183.68	11.66%
F5 FFIV	10/13/2004	\$ 43.81	800	\$ 35,051.00	\$ 61.25	39.80%	\$ 182.21	12.56%
Finisar FNSR	07/09/2003	\$ 2.01	6000	\$ 12,035.00	\$ 2.49	24.14%	\$ 158.68	29.25%
Corning GLW	09/09/2004	\$ 15.35	1000	\$ 15,351.00	\$ 24.46	59.34%	\$ 174.75	17.37%
Google GOOG	02/09/2006	\$ 371.45	100	\$ 37,145.00	\$ 342.38	-7.83%	\$ 203.51	0.78%
IDT IDT.C	04/09/2003	\$ 16.08	600	\$ 9,645.36	\$ 11.95	-25.66%	\$ 119.80	71.20%
JDS Uniphase JDSU	09/26/2002	\$ 2.07	8500	\$ 17,635.00	\$ 2.95	42.19%	\$ 92.19	122.48%
Juniper JNPR	02/09/2004	\$ 23.22	1300	\$ 30,184.00	\$ 19.13	-17.61%	\$ 194.99	5.18%
Motorola MOT	06/17/2004	\$ 18.40	500	\$ 9,200.00	\$ 22.44	21.96%	\$ 179.63	14.18%
MRV Communications MRVC	08/20/2003	\$ 2.46	8000	\$ 19,680.00	\$ 2.66	8.13%	\$ 150.78	36.03%
Microsoft MSFT	09/26/2002	\$ 24.21	1000	\$ 24,206.00	\$ 26.88	11.04%	\$ 92.19	122.48%
Nortel NT	09/21/2005	\$ 3.18	5000	\$ 15,900.00	\$ 2.92	-8.18%	\$ 189.98	7.96%
SanDisk SNDK	04/06/2005	\$ 28.59	300	\$ 8,577.00	\$ 59.39	107.73%	\$ 179.86	14.03%
Sun Microsystems SUNW	10/02/2003	\$ 3.66	2200	\$ 8,052.00	\$ 4.32	18.03%	\$ 159.65	28.47%
Tellabs TLAB	09/08/2004	\$ 8.62	2700	\$ 23,277.00	\$ 14.10	63.55%	\$ 172.12	19.16%
Verizon VZ	10/19/2005	\$ 30.20	700	\$ 21,140.00	\$ 34.15	13.08%	\$ 178.50	14.90%

(Model Portfolio performance continues on the next page)



Issue 202: Wednesday, February 15, 2006

### The Telecom Connection Portfolio – Performance

<b>Total Average Return</b>	<b>0.29%</b>	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 2006 YTD Return figures reflect changes since the beginning of 2006. The Total Average Return figures reflect changes since inception on 9/26/2001.
<b>2006 YTD Return</b>	<b>9.20%</b>	

### Nasdaq Telecom Index Performance

	Portfolio Inception	Open Level	Current Level	% Gain/Loss Since Portfolio Inception	2006 YTD Return
Nasdaq Telecom Index (IXTC)	8/14/2001	270.32	205.10	-24.13%	11.08%

*At the time of publication, the buy-side firm in which Mr. Willard is a partner was net long: AAPL, ADCT, AUDC, AVNX, BKHM, CSCO, DY, EBAY, EMKR, FFIV, FNSR, GLW, GOOG, IDT.C, JDSU, JNPR, MOT, MRVC, MRVL, MSFT, NT, 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>.





Issue 202: Wednesday, February 15, 2006

### Contact Info

► **Customer Service:**

Please email [members@thestreet.com](mailto:members@thestreet.com), or call 1-866-321-TSCM (8726) Mon. – Fri. 8 a.m. to 6 p.m. ET; or outside the U.S. and in Canada, call 1-212-321-5200.

► **Reader Feedback and Questions:**

Please [send an email](#) directly to Cody. Again, please direct all account-related inquiries to customer service.

### Legal Information

This information is confidential and is intended only for the authorized Subscriber. Please notify us if you have received this document in error by telephoning 1-866-321-TSCM (8726).

Cody Willard is a partner in a buy-side firm and a contributor to TheStreet.com's *RealMoney*. TheStreet.com is a publisher and has registered as an investment adviser with the U.S. Securities and Exchange Commission. Mr. Willard is restricted from transacting for his own benefit in securities discussed in *The Telecom Connection*. The firm in which Mr. Willard is a partner may, from time to time, have long or short positions in, or buy or sell the securities, or derivatives thereof, of companies mentioned in *The Telecom Connection*. In such cases, appropriate disclosure is made, although positions may change at any time and without notice. In addition, certain of TheStreet.com's affiliates and employees may, from time to time, have long and short positions in, or buy or sell the securities, or derivatives thereof, of companies mentioned in *The Telecom Connection* and may take positions inconsistent with the views expressed. At the time of publication, the buy-side firm in which Mr. Willard is a partner was net long: AAPL, ADCT, AUDC, AVNX, BKH, CSCO, DY, EBAY, EMKR, FFIV, FNSR, GLW, GOOG, IDT.C, JDSU, JNPR, MOT, MRVC, MRVL, MSFT, NT, SNDK, SUNW, TLAB, VZ. Net short ERICY.

*The Telecom Connection* contains Mr. Willard's own opinions, and none of the information contained therein constitutes a recommendation by Mr. Willard or TheStreet.com that any particular security, portfolio of securities, transaction, or investment strategy is suitable for any specific person. To the extent any of the information contained herein may be deemed to be investment advice, such information is impersonal and not tailored to the investment needs of any specific person. Mr. Willard's past results are not necessarily indicative of future performance.