Tech Stocks: Let's Get Ready to Tumble

By Richard Suttmeier

The U.S. equity markets have been resilient so far this year, but beware of the downside risks as the air is thin above **Dow** 11K, and the **Nasdaq** appears ready to tumble after testing my quarterly resistance at 2331 Jan. 11. The 30-year bond yield rose to as high as 4.73 in January, putting a drag on the fair value of every tech stock. Energy prices remain at inflationary levels, and new **Fed** Chief "Gentle Ben" Bernanke appears ready to raise the federal funds rate even higher in the months ahead. Stock valuations richened significantly in January, with technology the only sector still undervalued, but by just 2.9%.

One of the reasons for market optimism has been the expectation that Fed rate hikes would end soon, but that prospect appears to be thwarted by Friday's jobs report that showed unemployment declining. Six years ago a rate-hike cycle ended in May 2000 with the fed funds rate at 6.5%, but stocks did not stabilize until October 2002 with the funds rate at 2%. In other words, the end of rate hikes does not signal a rally.

The Nasdaq looks vulnerable, and a close this week below its five-week modified moving average (MMA) at 2262 would shift the weekly chart profile to negative, indicating risk to my quarterly support at 2159. This risk persists as long as strength above 2300 continues to fail. While a price tumble from 2331 to 2159 would be only a 7.5% loss, a more severe "bust" later in the year is still possible. Weakness to my semiannual support at 1853 would be a tumble of 20.5%. The risk of a bust would be signaled by a monthly close in February below 2159.

Sector Valuations

Sectors	Dec. 30, 2005	Jan. 31, 2006	# Strong Buys	# Buys	# Holds	# Sells & Str. Sells
Basic Industries	8.84% overvalued	19.95% overvalued	0	27	202	49
Capital Goods	2.87% overvalued	11.14% overvalued	1	36	252	28
Consumer Durables	2.95% undervalued	4.11% overvalued	16	27	110	38
Consumer Non-Durables	3.60% overvalued	8.61% overvalued	1	60	185	12
Consumer Services	0.46% undervalued	4.42% overvalued	1	32	507	151
Energy	3.92% overvalued	20.12% overvalued	45	62	207	17
Finance	2.67% overvalued	7.31% overvalued	15	223	869	24
Health Care	*3.12% undervalued*	4.75% overvalued	2	38	395	183
Public Utilities	3.21% overvalued	8.61% overvalued	2	12	182	32
Technology	*10.52% undervalued*	*2.93% undervalued*	1	11	453	322
Transportation	9.83% overvalued	8.36% overvalued	4	39	89	10

Source: ValuEngine.com

The table above clearly shows how much fundamental valuations deteriorated in January. The only sector now undervalued is technology, by 2.93%, but it's down from 10.52% at the end of 2005. The only sector becoming less overvalued is Transports, now at 8.36% vs. 9.83% at year-end. Within the tech sector, just one stock is rated strong buy – **RealNetworks** (RNWK:Nasdaq), which trades below $10 -- and only 11 others are rated buy.

Semiconductors: Only 3.1% Undervalued

In April, when this service was launched, the semiconductor industry was cheap -- 32.9% undervalued vs. 3.1% now. That change makes it tougher to find chipmakers for the model portfolio. Along with the richer valuations, a number of chip stocks have become pure momentum trades and are dangerously overvalued. Here's a list of those I would remove from a long-term, value-oriented technology portfolio:

▼ **Advanced Micro Devices** (AMD:NYSE): At Friday's close of $39.54, AMD is rated a hold and is 77.5% overvalued with fair value at $22.28. The weekly chart profile shows overbought momentum with the five-week MMA at $34.17. After the stock set a high of $42.42 on Feb. 2, my model shows risk to my annual value level at $28.61.

▼ **Broadcom** (BRCM:Nasdaq): At Friday's close of $67.58, Broadcom is rated a hold and is 42.3% overvalued with fair value at $47.50. The weekly chart profile shows overbought momentum with the five-week MMA at $57.57. After the stock set a high of $71.51 on Jan. 27, my model shows risk to my quarterly value level at $48.62.

▼ **Lam Research** (LRCX:Nasdaq): At Friday's close of $46.23, Lam is rated a hold and is 47.8% overvalued with fair value at $31.27. The weekly chart profile shows overbought momentum with the five-week MMA at $40.92. After the stock set a high of $47.50 on Feb. 2, my model shows risk to my annual value level at $40.07.

▼ **Marvell Technology** (MRVL:Nasdaq): At Friday's close of $66.41, Marvell is rated a hold and is 19.6% overvalued with fair value at $55.54. The weekly chart profile shows overbought momentum with the five-week MMA at $62.33. After the stock set a high of $73.67 on Jan. 27, my model shows risk to my quarterly value level at $43.82.

▼ **National Semiconductors** (NSM:NYSE): At Friday's close of $27.59, National Semi is rated a hold and is 21.2% overvalued with fair value at $22.77. The weekly chart profile shows declining momentum with the five-week MMA at $27.26. After the stock set a high of $29.55 on Jan. 27, my model shows risk to my annual value level at $20.51.

▼ **Rambus** (RMBS:Nasdaq): At Friday's close of $27.18, Rambus is rated a sell and is 235% overvalued with fair value at $8.11. The weekly chart profile shows overbought momentum with the five-week MMA at $25.39. After the stock set a high of $36.15 on Jan. 17, my model shows risk to my semiannual and quarterly value levels at $24.13 and $21.35, respectively.

Because a long-term technology portfolio requires exposure to semiconductors, I recommend that you stay with the four chip stocks in the model portfolio as long as they continue to qualify based upon my fundamental valuations (see my Key Levels table on page 9). The Philadelphia Semiconductor Index (SOX) gained 12.4% in January as many overvalued components showed strong technical momentum. But the **Semiconductor HLDRs** (SMH:Amex) gained only 1.8%. The model portfolio is long the undervalued chip stocks, and two of the four outperformed the SMH. The other two, **Intel** (INTC:Nasdaq) and **SigmaTel** (SGTL:Nasdaq), hit some bumps in January, but I expect their business to pick up as the year progresses.

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January Scorecard for the Semiconductor Industry

	SOX	Altera (ALTR)	Intel (INTC)	SigmaTel (SGTL)	Xilinx (XLNX)	Semi HLDR (SMH)
Dec. 30, 2005	479.49	18.53	24.96	13.10	25.21	36.64
Jan. 31, 2006	539.11	19.31	21.25	12.78	28.16	37.30
January Change	12.43%	4.21%	-14.86%	-2.44%	11.70%	1.80%

• **Altera** (ALTR:Nasdaq): Altera's chips are used in routers and switches, and wireless devices -- which should see strong demand in 2006. Numerous gadgets -- such as digital TVs, DVD players, PDAs, digital camcorders, set-top boxes, PCs, gaming systems and portable media players -- also depend on Altera's chipsets as the company demonstrated at the Las Vegas Consumer Electronics Show in early January. Altera is doing well in the consumer segment and outperformed the SMH in January.

• **Intel** (INTC:Nasdaq): Intel's weaker-than-expected earnings report caused shares to plunge in January, setting a new 52-week low and making the stock undervalued by more than 20%. But the world's leading chipmaker for PCs is taking steps to accelerate growth in revenue, which missed its fourth-quarter target. Intel is increasing capacity this year in order to meet demand. Also, at the start of the year, the company changed its mantra to "Intel, Leap Ahead" from "Intel Inside" to reflect its broader focus, which includes all consumer electronics, not just PCs. This diversification became evident even as Intel began supplying chips for **Apple's** (AAPL:Nasdaq) new Macintosh line in January, which should also benefit Intel if the new Macs are successful. Intel is concentrating on four product segments: mobile, digital home, enterprise and health. Diversification is key for the company.

At the Las Vegas Consumer Electronics Show, Intel demonstrated its latest dual-core chip technologies that will create an integrated entertainment center in the digital home by connecting a laptop and set-top box to enhance users' experience. In addition, Intel's random access memory chip that uses a 45-nanometer manufacturing process will be available in 2007. These chips will have more than 1 billion transistors according to Intel, and will lengthen battery life in mobile devices. Intel is thus an investment play in nanotechnology, another reason that justifies holding Intel shares for the long term.

• **SigmaTel** (SGTL:Nasdaq): SigmaTel launched new chipsets for color laser and multifunction printers in January to allow designers and manufacturers to make printers with a higher-quality image at reduced costs. This was the first use of the technology the firm received when it acquired Oasis Semiconductor in September 2005. SigmaTel supplies chips to Windows Media-based players as well as to Apple's iPods, but the company warned on Feb. 1 that it is taking longer than expected for the market to adopt the Microsoft players and shares fell. However, I expect Microsoft's Windows Media software to be a formidable competitor against Apple's iPod and iTunes.

• **Xilinx** (XLNX:Nasdaq): Xilinx makes chips used in consumer electronics and industrial applications, which is a business mix that makes this company an ideal member of a long-term technology portfolio. At the Las Vegas Consumer Electronics Show, Xilinx displayed its programmable logic devices, which are used in digital display handset and laptop applications – both growing areas. Also, two recent partnerships should help Xilinx increase market share longer term. Xilinx and Japan's **Toshiba** began an agreement to co-develop next-generation logic chips in December 2005, expanding an ongoing relationship. Then in mid-January, the company -- in an alliance with Tokyo Electron Device -- unveiled a development platform for applications such as flat-panel TVs. Positive earnings guidance also contributed to share-price gain in January.

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SOX Looks Slippery

Although we heard a lot of hype in January about the Philadelphia Semiconductor Index (SOX) leading the market higher, its overbought chart suggests risks lie ahead. The SOX may have peaked at 559.60 on Jan. 27, just shy of the January 2004 high of 560.68. Friday's close was below my monthly pivot at 529.84, which provides a warning to investors. A weekly close below the five-week modified moving average at 513.96 would be a technical danger signal that SOX leadership could shift to the downside with risk to my quarterly support at 394.12. A drop from 559.60 to 394.12 would be a correction of 29.6%.

Philadelphia Semiconductor Index (SOX) – Weekly Chart

Source: Athena Graphics on Telerate Plus

Computer Manufacturers: Only 9.1% Undervalued

The computer makers were also much less undervalued at the end of January, at 9.1% vs. 28.9% in April 2005, and 23.8% just one month ago. Last week I added **Dell** (DELL:Nasdaq) to the model portfolio, making my focus in this industry on the leaders in storage, networking and consumer gadgets. In a segment where it's tough to find value, it's prudent to have market exposure with the longer-term industry leaders. Growth in 2006 will depend on stable consumer spending, upgrades by global telecom providers and corporate spending to upgrade networks and the devices that connect to them.

• **Cisco** (CSCO:Nasdaq): Cisco's purchase of **Scientific-Atlanta** (SFA:NYSE) appears to be on track, and should provide benefits as Cisco combines the two companies' technologies to launch products and services for home networking. Cisco is also expanding into consumer electronics with phones, radios and home-theater equipment, and in my opinion will be well-positioned to achieve a solid piece of market share as home-networking alliances are announced. In January, Linksys -- Cisco's subsidiary that specializes in voice, wireless and networking products for consumers and small businesses -- launched a new high-speed wireless Internet access device to reach indoor and outdoor locations where access is difficult to achieve.

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Cisco also continues to benefit in the commercial world as telecom providers upgrade their Internet protocol (IP) networks. Shanghai Telecom is using Cisco routers to increase speed and capacity in its network. Petrom, an oil and gas producer in South Eastern Europe, plans to use Cisco's IP services to improve its Internet and network operations. Back at home, Cisco, Intel and **Oracle** (ORCL:Nasdaq) have formed a technology consortium to help medical groups and independent practice associations share patient records electronically. The health care industry is booming and alliances with other tech giants should help Cisco increase revenue in other industries.

January Scorecard for the PC & Gadget Makers

Date	Apple (AAPL)	Cisco (CSCO)	Dell (DELL)	EMC (EMC)	Juniper (JNPR)	XM Satellite (XMSR)
Dec. 30, 2005	71.89	17.12	29.95	13.62	22.30	29.26
Jan. 31, 2006	75.51	18.57	29.31	13.40	18.13	26.18
January Change	5.04%	8.47%	-2.14%	-1.62%	-18.70%	-10.53%

• **Dell:** My latest addition is more than just a PC maker, with product offerings such as servers, storage devices, workstations and printers. It is also a full-service information technology (IT) company, providing software and consulting to corporations. Dell is involved in consumer electronics as well, and makes flat-panel TVs and MP3 players. Relatively strong demand for consumer devices should help the company avoid a third-consecutive bad earnings report on Feb. 16. Another potential positive is that Dell may soon announce that its next generation of PCs will include chips made by **Advanced Micro Devices** (AMD:NYSE). Dell's expansion into these new markets should help its turnaround, and is part of the reason I added this name to the model portfolio.

• **EMC** (EMC:NYSE): EMC is the leader in storage solutions and provides full-service information technology (IT) solutions to major corporations to upgrade data-storage systems and networks. In January, the company added the Google Desktop for Enterprise to its popular content management software, EMC Documentum Services, to give users access to Google's global content and search tools. Another plus for the software in January was an announcement that it is being used by the U.K.'s The Open University to upgrade its network applications, including storage and access to educational materials. The school has about 180,000 students. Also in January, EMC launched several new or upgraded products: configurations for storage systems; software to improve IP-storage networks; and software to manage governance and regulatory requirements, including archiving. Last, EMC forged a deal with BT Global Services -- a unit of **British Telecom** (BT:NYSE ADR) -- to use EMC's software to monitor the performance of BT's IP telephony, voice-over-IP and content delivery. Shares of EMC stayed range-bound in January, but the company is sufficiently undervalued to remain in the model portfolio longer term.

• **Juniper** (JNPR:Nasdaq): Even though Juniper's share price slumped in January on disappointing earnings guidance, I expect the network gearmaker to benefit in 2006 as wireless networks and corporations upgrade their IP networks. A number of announcements this past month have also focused attention on Juniper's security devices. The company said NATO is deploying Juniper platforms to secure the organization's wide-area networks and detect malicious activity before it can enter and corrupt NATO's networks. 012 Golden Lines, an Israeli telecomm service provider, will be deploying Juniper routers and integrated security devices for its new VoIP (voice over IP) network. Juniper also added Lembaga Tabung Haji, a Malaysian financial organization, to its list of product users that have selected Juniper's security gateway to protect their network. In addition, Persistent Systems, a leading software development company in India, is also now using Juniper's security solutions to protect its IP infrastructure. Juniper, too, is undervalued enough to remain in the model portfolio.

Software Companies: Only 4.5% Undervalued

Software companies have also lost ground in terms of valuations and are now only 4.5% undervalued vs. 19.9% in May and just 10.2% a month ago. So here too, it's hard to find undervalued software companies, but my model turned up two new buy-rated names in this industry in January -- **Powerwave** (PWAV:Nasdaq) and **Tellabs** (TLAB:Nasdaq).

I removed **Microsoft** (MSFT:Nasdaq) and **RSA Security** (RSAS:Nasdaq) from the model portfolio for 11% and 26% gains, respectively, as the stocks traded near risky levels in January. For Internet commerce I favor **Click Commerce** (CKCM:Nasdaq), which also has a buy rating according to ValuEngine. For Internet security, I project that beaten-down **Symantec** (SYMC:Nasdaq) will recover as the charges related to its Veritas merger -- which weighed on fiscal third-quarter profits -- should be over.

My allocation to software is also skewed toward plays in telecom with the two new portfolio members Powerwave and Tellabs. **AT&T** (T:NYSE) -- which is so diversified that it offers software services as part of its information technology offerings -- is also a buy-rated stock. It should continue to perform well even if the market slumps. But as we saw among chip stocks, a number of software names should be avoided:

▼ **Akamai** (AKAM:Nasdaq): At Friday's close of $21.83, Akamai is rated a sell and is 56.5% overvalued with fair value at $13.95. The weekly chart profile shows overbought momentum with the five-week MMA at $21.38. After the stock set a high of $24.14 on Jan. 19, I show risk to my semiannual value level at $16.85 on a weekly close below the five-week MMA.

▼ **Checkfree** (CKFR:Nasdaq): At Friday's close of $49.59, Checkfree is rated a sell and is 38.9% overvalued with fair value at $35.70. The weekly chart profile shows declining momentum with the five-week MMA at $47.35. After the stock set a high of $55.42 on Jan. 26, I show risk to my quarterly and semiannual value levels at $45.60 and $44.50, respectively.

▼ **Salesforce.com** (CRM:NYSE): At Friday's close of $38.23, Salesforce.com is rated a hold and is 61.0% overvalued with fair value at $23.74. The weekly chart profile shows overbought momentum with the five-week MMA at $36.82. After the stock set a high of $42.99 on Jan. 30, I show risk toward fair value on weekly closes below my monthly pivots at $38.16 and $36.97.

▼ **RightNow** (RNOW:Nasdaq): At Friday's close of $15.75, RightNow is rated a sell and is 4.1% overvalued with fair value at $15.14. The weekly chart profile shows declining momentum with the five-week MMA at $15.14. The stock set a high of $20.83 on Jan. 12, but I do not have a value level for it, and monthly risky levels at $19.21 and $20.26 are below the January high.

▼ **Red Hat** (RHAT:Nasdaq): At Friday's close of $28.32, Red Hat is rated a hold and is 54.7% overvalued with fair value at $18.31. The weekly chart profile shows overbought momentum with the five-week MMA at $27.48. After the stock set a high of $31.05 on Jan. 11, I show risk to my semiannual value level at $23.08.

▼ **Websense** (WBSN:Nasdaq): At Friday's close of $66.81, Websense is rated a sell and is 14.8% overvalued with fair value at $58.19. The weekly chart profile shows declining momentum with the five-week MMA at $64.61. After the stock set a high of $69.73 on Dec. 27, I show quarterly pivots at $69.11 and $69.31; below this area is risk to my monthly pivots at $61.96 and $59.91. Semiannual value levels are $52.34 and $47.75.

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Now, let's look at the model portfolio software names.

• **Click Commerce** (CKCM:Nasdaq): This company specializes in Internet software for e-commerce automation. Look for increased demand in 2006 as businesses upgrade solutions for inventory control and business-to-business communications between suppliers, warehouses and clients. In January, Click announced several new deals, including American Airlines' deployment of its software to help the carrier reduce inventories by making the placement of spare parts more efficient; a partnership with Vue Technology to combine its radio frequency identification (RFID) technology with Click's supply-chain management software; and an agreement with Washington University in St. Louis for it to automate procedures for research projects on human subjects using Click's eResearch Portal. This stock began January rated a strong buy, and is still rated a buy even after its 40% gains in January.

January Scorecard for Internet, Software & Telecom Companies

Date	Click Commerce (CKCM)	Powerwave (PWAV)	Symantec (SYMC)	AT&T (T)	Tellabs (TLAB)	Time Warner (TWX)	VeriSign (VRSN)
Dec. 30, 2005	21.02	12.57	17.50	24.49	10.90	17.44	21.90
Jan. 31, 2006	29.75	14.61	18.38	25.95	12.79	17.53	23.75
January Change	41.53%	16.23%	5.03%	5.96%	17.34%	0.52%	8.45%

• **Symantec** (SYMC:Nasdaq): Symantec is a leader in information security software and services used to protect IT infrastructures. In January, it purchased IMlogic, which provides software to secure and store instant messages – a hot area as companies need to archive IMs to comply with Sarbanes-Oxley regulations. Symantec also closed a couple of IT deals, including one with Entertainment Partners to use Symantec's Veritas Storage Foundation with IBM servers running Linux to reduce costs by as much as 40%. Another was with Kettering Medical Center in Dayton, Ohio, which is using Symantec's Managed Security Services to prevent intrusion and protect its network, as well as patient and research data.

January was also a busy month for security initiatives. Symantec launched a new system to protect personal information from cyber-threats, and released upgrades to its Norton line of security and antivirus scanning software. Plus, the company launched upgraded antivirus software to secure wireless devices that use Palm OS, Microsoft Windows Mobile and Pocket PCs. Security will be an ongoing concern for all Internet users, which should keep Symantec's revenue growing. Symantec shares recovered in January from their mid-November/December tumble, but are now down again; my last trade in this position was to reduce shares in early November at $19.50, and I will be patient on this name.

• **VeriSign** (VRSN:Nasdaq): VeriSign provides infrastructure services for Internet connectivity, focusing on wireless broadband. The stock is not undervalued enough for new investment dollars now, as shares are higher mainly because of VeriSign's entry in the **S&P 500** on Jan. 31. This kept the share price firm despite modest, lower-than-expected earnings guidance. In January, VeriSign purchased software company CallVision to expand its Web-based billing and client management software, which should see demand from major telecom service providers such as T-Mobile and Bell Canada.

• My latest additions, Powerwave and Tellabs, were added to the model portfolio on Jan. 20, and both have been strong performers since then. Powerwave makes products for wireless networks, including repeaters and tower-mounted amplifiers that are used in cell-phone services, and its biggest client is AT&T's Cingular Wireless. Tellabs designs communications equipment for telecom service providers that improve network access, voice quality, and broadband data transmission used for businesses and homes. An upbeat earnings report sent its shares sharply higher in January.

Tech Hotspots

► Satellite Radio: Tuning In XM Satellite

XM Satellite Radio (XMSR:Nasdaq), which has more than 6 million subscribers, joined the model portfolio Jan. 31. The service has with 160 digital channels, including 65 commercial-free music channels, and the company is aligned with a number of automakers to offer factory-installed XM satellite radio as an option on 140 vehicle models in 2006. Although I still like and use **Sirius Satellite Radio's** (SIRI:Nasdaq) product, shares shifted to a sell rating on Dec. 8 and I told *RealMoney* subscribers that it was "Time to Sell Sirius" with shares above $7.50. This was the most unpopular call of my career, but shares traded as low as $5.23 last week, justifying my model's projection. One interesting development in January is the pirating of the Howard Stern show over the Internet, which I will be following. Sirius is still sell-rated with fair value at $6.02. The weekly chart profile shows declining momentum with risk to the 200-week simple moving average at $3.56.

XM is expected to report a loss of 89 cents per share when it posts earnings on Feb. 16, with Sirius' report coming a day later. Sirius' loss is expected to be 21 cents a share. I believe that XM shares will stay above their 200-week simple moving average at $20.75.

► AOL Turnaround: Slow and Steady

Time Warner's (TWX:NYSE) American Online division continues to lose dial-up subscribers, but it has agreements in place to entice defectors to go with AOL's Broadband offerings, including free services on the new portal AOL.com. The unit has landed deals to offer low-cost high-speed Internet access bundled with service offerings from **BellSouth** (BLS:NYSE), AT&T and **Quest** (Q:NYSE); AOL already has deals with Time Warner Cable and **Verizon** (VZ:NYSE). These broadband partnerships should help American Online keep subscribers as they decide to upgrade and leave its dial-up services. On the ad front, AOL and **Google's** (GOOG:Nasdaq) pact should help increase advertising revenue. To review, Google paid $1 billion for a 5% investment in AOL. Finally, in January AOL acquired Truveo, a video-search-engine startup, to add technology that helps users more easily find the latest news, sports and other online video content – another initiative to enhance its site. Time Warner shares began to rebound at the end of January on a positive reaction to its quarterly earnings report.

►The New AT&T: Ahead of Schedule

AT&T (T:NYSE) is the most diversified telecom company in the U.S. Its services include high-speed DSL Internet, local and long-distance voice, directory publishing and advertising services, as well as a 60% stake in Cingular. The wireless service has the largest U.S. digital voice and data network with more than 52 million customers, and is positioning itself to gain more. RadioShack began offering Cingular products and services in more than 5,000 stores across the country in January. PC maker Lenovo will include Cingular's wireless wide-area network in upcoming releases of its ThinkPad notebooks. And at the Las Vegas Consumer Electronics Show, Cingular became the first wireless carrier to complete a mobile data call using a 3.6Mbps high-speed access device on its 3G network. Last, Cingular Wireless is selling a mobile phone that uses Microsoft's software, which has the potential to become a hot item for cell-phone users who also use Microsoft Windows.

Last week Ma Bell indicated that it had underestimated the benefits from its merger with SBC. The company projects annual savings of $1.2 billion by 2008, with 30 cents a share to be added to earnings in 2008. In addition, there will be a positive effect on 2007 earnings more than a year ahead of expectations. The weekly chart profile reflects this upbeat assessment, and shares are trading above their 200-week simple moving average (SMA) at $25.05 for the first time since 2001.

Key Levels for TheStreet.com Technology Report Model Portfolio

This table of key statistics gives the price levels to watch for when initiating, building up or closing positions. During the month I will consider adding to positions on weakness to the value levels, and reducing positions on strength to the risky levels. Each month, this table will be revised as necessary to reflect any new levels.

Company / Symbol	Jan. Closes	Rating	UV By*	Fair Value**	Value Levels	Pivots	Risky Levels
Altera (ALTR)	$19.31	Hold	21.3%	$24.54	$17.04 Q / $16.65 M / $15.39 S	$18.78 Q / $18.73 M	$21.68 Q / $27.87 A
Click Commerce (CKCM)	29.75	Buy	41.0	50.40	23.53 Q / 23.36 M / 18.27 S	24.05 Q	35.75 M
Cisco (CSCO)	18.57	Hold	10.7	20.80	16.83 M / 14.39 Q	19.14 M	20.61 Q / 40.48 A
Dell DELL)	29.31	Hold	27.2	40.25	26.81 M		34.27 M / 36.94 Q / 38.40 Q
EMC (EMC)	13.40	Hold	38.1	21.66	12.94 M	13.22 Q / 13.36 Q / 14.03 M	41.36 A
Intel (INTC)	21.25	Hold	23.2	27.68	19.66 S / 17.30 Q / 16.02 S	22.19 M / 23.41 Q	26.90 M / 38.25 A
Juniper (JNPR)	18.13	Hold	44.3	32.55	17.75 S	18.81 M	23.56 M / 29.54 Q / 32.41 Q
Powerwave (PWAV)	14.61	Hold	40.8	24.67	11.45 Q / 11.43 Q	15.49 M / 16.16 M	26.51 A / 27.34 A
SigmaTel (SGTL)	12.78	Buy	33.9	19.34	9.27 M		
Symantec (SYMC)	18.38	Hold	17.9	22.39	16.32 is the 52-week low	18.17 M / 19.50 A	21.85 A / 22.83 M / 25.26 S / 26.04 S
AT&T (T)	25.95	Buy	36.9	41.06	24.45 M / 22.52 M		72.69 A
Tellabs (TLAB)	12.79	Hold	8.7	14.00	11.19 Q / 10.15 Q	12.14 M / 12.68 M	21.56 A
Time Warner (TWX)	17.53	Hold	20.9	22.16	16.97 Q	17.73 M / 18.29 M	19.96 Q / 53.65 A
VeriSign (VRSN)	23.75	Hold	0.5	23.86	15.22 M	22.88 M	30.95 Q / 32.55 Q
Xilinx (XLNX)	28.16	Hold	18.3	34.46	26.68 M / 25.94 M		32.49 Q / 47.11 A
XM Satellite(XMSR)	26.18	Hold	28.1	36.42	$20.57 is the 200-week SMA	26.16 S / 26.34 S / 29.71 M	35.40 M / 35.84 Q / 46.42 Q

*UV By: percentage undervalued. **Fair Value: where stock could trade in a perfect world.

Short Positions				
Nasdaq-100 Trust (QQQQ)	$42.00	$39.64 Q / $30.44 S	$41.77 M / $42.72 Q	$44.00 M
Semiconductor HLDRs (SMH)	37.30	33.13 is the 200-week SMA	38.30 M	41.23 M

Legend: M: monthly; Q: quarterly; S: semiannual; A: annual. Source: Global Market Consultants, Ltd.

My Trading Strategies for February 2006

-- Altera (ALTR:Nasdaq): Add 200 shares to the model portfolio on weakness to my quarterly value level at $17.04. Or, reduce this position by 200 shares on strength to my quarterly risky level at $21.68.

-- Click Commerce (CKCM:Nasdaq): Add 170 shares to the model portfolio on weakness to my quarterly value level at $23.53. Or, remove this position on strength to my monthly risky level at $35.75.

-- Cisco (CSCO:Nasdaq): Add 175 shares to the model portfolio on weakness to my monthly value level at $16.83. Or, reduce this position by 175 shares on strength to my quarterly risky level at $20.61.

-- Dell (DELL:Nasdaq): Add 150 shares to the model portfolio on weakness to my monthly value level at $26.81. Or, remove this position by 150 shares on strength to my monthly risky level at $34.27.

-- EMC (EMC:NYSE): Add 300 shares to the model portfolio on weakness to my monthly value level at $12.94. Or, reduce this position by 300 shares on strength to my monthly pivot at $14.03.

-- Intel (INTC:Nasdaq): Add 150 shares to the model portfolio on weakness to my semiannual value level at $19.66. Or, reduce this position by 150 shares on strength to my monthly risky level at $26.90.

-- Juniper Networks (JNPR:Nasdaq): Reduce this position by 200 shares on strength to my weekly risky level at $19.48.

-- **Powerwave Tech** (PWAV:Nasdaq) Add 300 shares to the model portfolio on weakness to my quarterly value level at $11.45. Or, remove this position on strength to my monthly pivot at $16.16.

-- SigmaTel (SGTL:Nasdaq): Add 200 shares to the model portfolio on weakness to my monthly value level at $9.27. Reduce this position by 200 shares on strength to the Dec. 2 high at $16.17.

-- Symantec (SYMC:Nasdaq): Reduce this position by 225 shares on strength to my annual pivot at $21.85.

-- AT&T (T:NYSE): Add 170 shares to the model portfolio on weakness to my monthly value level at $24.45.

-- **Tellabs** (TLAB:Nasdaq) Add 350 shares to the model portfolio on weakness to my quarterly pivot at $11.19.

-- Time Warner (TWX:NYSE): Reduce this position by 225 shares on strength to my quarterly risky level at $19.96.

-- VeriSign (VRSN:Nasdaq): Remove this position from the model portfolio on strength to the 200- day simple moving average at $24.95, or on a sell stop below my monthly pivot at $22.88.

-- Xilinx (XLNX:Nasdaq): Add 150 shares to the model portfolio on weakness to my monthly value level at $26.68.

-- XM Satellite (XMSR:Nasdaq): Remove this position from the model portfolio on strength to my monthly pivot at $29.71.

Short Positions

-- Nasdaq 100 Unit Trust (QQQQ:Nasdaq): Add 100 shares to this short position on strength to my monthly risky level at $44.00.

-- Semiconductor HOLDRs (SMH:Amex): Add 200 shares to this short position on strength to my monthly risky level at $41.23.

Behind the Numbers

I use a three-pronged approach – looking at fundamentals, weekly chart momentum and critical technical levels -- to screen 6,000 stocks, and then profile the results according to my judgment. The key is that all stocks are reviewed and evaluated by the same methods. This method provides guidelines to help traders and investors make their own decisions.

1) Fundamental Screens: I calculate a fair value for every stock, which is the price at which a stock can trade in a perfect world. Fair value is not a price target; fair value is based on a stock's past data and projections for the future, including the trailing 12-month EPS, the forward 12-month estimated EPS and the yield on the 30-year Treasury bond. How these data points are weighted is based on a historical analysis of the stock's price history along with 17 other variables that influence the calculation based on the stock's sector and industry group. These variables also provide a rating: strong buy, buy, hold, sell and strong sell. It is a bell-shaped curve of some 6,000 stocks that I screen using ValuEngine.com. Most stocks are in the middle of the curve as a hold. Only 2% of stocks are rated a strong buy or strong sell by these measures.

- **Strong buy**: Long-term investors should start a position now.
- **Buy**: Buy on weakness to a value level.
- **Hold**: Add to an existing position on weakness to a value level, and reduce an existing position on strength to a risky level.
- **Sell**: Reduce on strength to a risky level.
- **Strong sell**: Liquidate now as a source of funds.

2) Weekly Chart Momentum: This approach measures the technical strength of a stock. A stock with a positive profile has a weekly close above its five-week modified moving average (MMA) with a rising 12x3 weekly slow stochastic, which is a measure of momentum on a scale of zero to 100. A reading above 80 is overbought. A stock with a negative profile has a weekly close below its five-week MMA with a declining 12x3 weekly slow stochastic. A reading below 20 is oversold.

- **Overbought**: 12x3 weekly slow stochastic above 80.
- **Rising**: 12x3 weekly slow stochastic rising above 20, but below 80.
- **Flat**: 12x3 weekly slow stochastic not rising or declining, but between 20 and 80.
- **Declining**: 12x3 weekly slow stochastic is declining below 80, but above 20.
- **Oversold**: 12x3 weekly slow stochastic is below 20.

3) Key Technical Levels: I identify these areas as a price at which to buy on weakness and at which to sell on strength. They include:

- **Moving averages on daily charts**: The 21-day, 50-day and 200-day simple moving averages (SMA).
- **Moving averages on weekly charts**: The five-week modified moving average (MMA) and the 200-week simple moving average (SMA).
- **Value Levels, Risky Levels and Pivots:** A value level is a price at which buyers should emerge on share-price weakness. A risky level is a price at which sellers should reduce holdings on share-price gains. A pivot is a value or risky level that was violated in its time horizon, acting as a magnet during the remainder of that time horizon. These levels are calculated in weekly (W), monthly (M), quarterly (Q), semiannual (S) and annual (A) time horizons, based on the past nine closes in each time period. My theory is that the closes over a nine-year period are the summation of all bullish and bearish events for that market or specific stock.

Technology Report Model Portfolio

Long Holdings

Company Name	Current Quote	Initial Purchase Date	Most Recent Trade Date	# Shares	Cost Basis per Share	Current Value	$ Gain/ Loss	% Gain/ Loss
Altera (ALTR)	$ 19.58	09/21/2005	01/20/2006	400	$ 18.81	$ 7,832.00	$ 310.00	4.12%
Click Commerce (CKCM)	$ 28.02	12/12/2005	12/12/2005	170	$ 23.38	$ 4,763.40	$ 788.80	19.85%
Cisco (CSCO)	$ 18.09	04/04/2005	06/27/2005	600	$ 18.63	$ 10,854.00	$ -326.25	-2.92%
Dell (DELL)	$ 29.69	01/31/2006	01/31/2006	150	$ 29.49	$ 4,453.50	$ 30.00	0.68%
EMC (EMC)	$ 13.35	06/29/2005	01/10/2006	600	$ 13.56	$ 8,010.00	$ -123.00	-1.51%
Intel (INTC)	$ 20.67	07/20/2005	10/13/2005	300	$ 24.96	$ 6,201.00	$ -1,285.50	-17.17%
Juniper (JNPR)	$ 18.82	10/18/2005	01/26/2006	675	$ 20.28	$ 12,703.50	$ -985.00	-7.20%
Powerwave (PWAV)	$ 14.19	01/20/2006	01/20/2006	300	$ 13.13	$ 4,257.00	$ 318.00	8.07%
SigmaTel (SGTL)	$ 11.39	09/08/2005	01/10/2006	400	$ 16.55	$ 4,556.00	$ -2,062.00	-31.16%
Symantec (SYMC)	$ 16.95	05/11/2005	11/02/2005	425	$ 20.31	$ 7,203.75	$ -1,429.25	-16.56%
AT&T (T)	$ 26.92	07/11/2005	07/11/2005	170	$ 23.70	$ 4,576.40	$ 547.40	13.59%
Tellabs (TLAB)	$ 13.59	01/20/2006	01/20/2006	350	$ 11.27	$ 4,756.50	$ 812.00	20.59%
Time Warner (TWX)	$ 18.36	04/04/2005	01/23/2006	675	$ 17.20	$ 12,393.00	$ 783.00	6.74%
VeriSign (VRSN)	$ 23.67	01/03/2006	01/24/2006	300	$ 21.23	$ 7,101.00	$ 732.00	11.49%
Xilinx (XLNX)	$ 27.20	06/20/2005	06/20/2005	150	$ 26.52	$ 4,080.00	$ 102.00	2.56%
XM Satellite (XMSR)	$ 23.68	01/31/2006	01/31/2006	150	$ 26.40	$ 3,552.00	$ -408.00	-10.30%

Short Sales

Company Name	Current Quote	Initial Purchase Date	Most Recent Trade Date	# Shares	Cost Basis per Share	Current Value	$ Gain/ Loss	% Gain/ Loss
Nasdaq-100 Trust (QQQQ)	$ 40.63	11/17/2005	01/09/2006	(200)	$ 41.82	$ 237.00	$ 237.00	-2.83%
Semiconductor HLDRs (SMH)	$ 37.95	12/01/2005	01/04/2006	(200)	$ 38.18	$ 45.00	$ 45.00	-0.59%

Performance

Total Average Return (including cash) 5.31%

2006 YTD Return 1.28%

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. The 2006 Year-to-Date Return figure reflects changes since inception at the market open April 4, 2005. The Total Average Return figure reflects changes since inception at the market open April 4, 2005.

	Date of Portfolio Inception	Open Price	Current Price	% Gain/Loss Since Portfolio Inception	2006 YTD Return
Tech SPDR (XLK)	4/4/2005	$ 19.35	$ 21.16	9.35 %	0.81 %

	Date of Portfolio Inception	Open Level	Current Level	% Gain/Loss Since Portfolio Inception	2006 YTD Return
S&P 500 Index (SPX)	4/4/2005	1,172.79	1,254.78	6.99 %	0.03 %

To see the full Technology Report Model Portfolio, including closed positions, visit http://www.thestreet.com/k/tsctr/portfolio.html

Reader Feedback

Question: How do you calculate the number of shares you should be short against your long technology positions in the **Nasdaq 100 Unit Trust** (QQQQ:Nasdaq) and **Semiconductor HOLDRs** (SMH:Amex)? – J.

Answer: If you wish to be 100% hedged, add up the dollar value of all your long positions and then go short the number of equivalent shares. Hedge the semiconductors using the SMH, and the balance using the QQQQ.

Question: Since many investors in **Advanced Micro Devices** (AMD:NYSE) are forward-looking and value stock prices according to its future earnings, how can they judge a stock as overvalued? Analysts have been busy revising their 2006 estimates for the stock significantly higher for next year. Suppose Advanced Micro posts a $2 profit per share next year -- that would give it a P/E of 18, which would still be too low for a company growing at its rate. Therefore, one could argue that Advanced Micro remains undervalued even at $36 a share. – J.

Answer: If I assume earnings per share of $2 for Advanced Micro over the next 12 months, the fair value rises to just $22.62, according to my model. When a stock becomes a momentum play, forget the fundamentals and trade the charts; also, raise a trailing sell stop each week. AMD's weekly chart profile is positive, but overbought.

Question: I sold **Nividia** (NVDA:Nasdaq) at year-end to take a gain to offset other losses. I know your model viewed the stock favorably in the past. Needless to say, I am sick seeing Nividia going up so much after my sale. Is it too overvalued now to buy? – P.

Answer: Nividia has become a pure momentum trade. ValuEngine rates it a hold, and is only 9.8% undervalued. Fair value is at $48.21. There will be other opportunities to buy NVDA at a value level.

Question: Is **Texas Instruments** (TXN:NYSE) overvalued, and if so, by how much? – B.

Answer: Texas Instruments is rated a hold by ValuEngine and is trading around its fair value. The stock has not been able to get above $35 even though it's been trying to break above that level since last September. I would keep my powder dry on this one.

Question: Regarding limit orders, what rule of thumb do you use to set the limit when you buy a stock? Do you set it above the ask price or bid price, and by how much? – B.

Answer: Limit orders to buy a stock are set below the market price at a level where you are comfortable buying. My model provides value levels for setting limit orders.

Question: What's your current opinion on **Nokia** (NOK:NYSE ADR)? – D.

Answer: Nokia is rated a hold according to ValuEngine, and is 7.2% undervalued with fair value at $19.72. I would consider adding to a position on weakness to my quarterly value level at $16.29.

(Continued on the next page)

Question: Would you hold on to **Intel** (INTC:Nasdaq), or sell all or part of it here since it does not seem to be executing, at least for the time being? – R.

Answer: I pared back on Intel in the model portfolio on Dec. 12 at $26.71, which was a rebound to a risky level. Now I am looking to add to this position on weakness to my semiannual value level at $19.66.

Question: What does the future hold for **Google** (GOOG:Nasdaq)? Will shares decline to fill the gap at $321? – P.

Answer: Google fair value is just above $400, which held at its recent low. Monthly resistances should prevent a new high on the stock's current rebound – its all-time high is $475, set Jan. 11. Google $321 could eventually happen, but not anytime soon.

Question: Is **Broadcom** (BRCM:Nasdaq) still overvalued? Does the recent news justify the valuation of the company? What prompted you to describe the stock as overvalued when the company is doing well? – P.

Answer: The financial data from the company and Wall Street estimates are key determinants to a stock's fair value. These data are in the public domain. If Wall Street does not significantly raise estimates for 12-month forward EPS, shares will stay overvalued according to my model. There is nothing I can do to change that. But I would consider also using the other two components of my three-pronged approach. The weekly chart profile has been positive, and I have not shown a risky level at which to sell. This makes Broadcom a pure momentum trade (see page 2), and as such, investors should consider a sell stop to protect gains and raise that stop price each week as the stock moves higher.

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Contact **Info**

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