

Cody Willard Blog

## Market Still Punishing Bad Fundies

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I spent the last five days in my hometown of Ruidoso, a small community in the mountains of southeastern New Mexico. Being three hours from the closest major airport makes the community rather isolated, although as the content revolution accelerates, the townspeople are increasingly able to access information and capital by visiting Web sites and watching cable news such as *CNBC*.

As removed as I felt from the stresses and trials of running a hedge fund in NYC, the market fully infected my bloodstream many years ago, so I was unable to completely disconnect. I could and did access my emails on my **Motorola** (MOT: NYSE) Q phone from most anywhere in the area, including the top of a mountain in Cedar Creek, right next to the Mescalero Apache Indian Reservation.

So I saw **Microsoft** (MSFT: Nasdaq) report some rather strong numbers and surprise most of the Street with strong guidance too. And I also noted the chorus of "So what?" from most analysts and pundits. Microsoft's outperformance has been rather striking since this meltdown began back in early May, and I continue to think it's the tech stock with the best risk/reward out there, bar none.

I also saw **Broadcom's** (BRCM: Nasdaq) weak guidance. The inventory issue there seems to be the primary problem, rather than a collapse in end-user demand. And that means I continue to be interested in building a Broadcom position, though I remain on the sidelines in this name for now.

The semis are still pretty much the key for tech stocks overall. It's going to be tough for the **Nasdaq** to put on much of meaningful move to the upside without some participation, nay, leadership from the semis. With **Cymer** (CYMI: Nasdaq) adding to the fundie problems last night, the semis seem to be leading only to the downside. And the markets have been loyal followers.

Meanwhile, **Amazon.com** (AMZN: Nasdaq) blows it. Does it have access to enough capital to remain a top player in the Internet wars? Probably, but the more the stock gets punished, the more expenses run, and the farther that margins drop, the riskier this stock gets.

With **UPS** (UPS: Nasdaq) joining the team of companies telling the world that the economy is slowing, it's increasingly difficult for the bulls (and even those bears who love to dabble on the long side) to brush off this latest downturn as another seasonal pause.

As ever in the near term, more important than the news flow itself is the market's reaction to that news flow. And the market continues to harshly punish weak fundamentals and guidance, and to selectively reward good fundamentals and guidance.

I continue to be mostly in cash (and Softee!), and I did no trading at all while I was gone. I expect that I'll start nibbling on some favorite names over the course of the rest of the summer, but I am in no rush and will let the market dictate my pace.

I am thrilled to be back in NYC and back in the virtual world of blogging. More soon.

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*At the time of publication, the firm in which Willard is a partner was long Microsoft, although positions can change at any time and without notice.*

*Cody Willard is the manager of a hedge fund, author of [The Telecom Connection](#), a newsletter published by [TheStreet.com](#) and a contributor to the *Financial Times* and *VON Magazine*. He is also a regular guest on *CNBC's Kudlow & Company* and an adjunct professor at *Seton Hall*. He earned a bachelor's degree in economics at the *University of New Mexico*. Willard appreciates your feedback -- [click here](#) to send him an email.*