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IS IT THE TIME TO BUY ?

The world's is moving precipitously close to recession.

There is no clear respite in sight, at this time.

The economic slowdown, internationally, is becoming more and more protracted, much to the consternation of many a politician, banker, mogul and investor, alike.

Last week, there were signs that, perhaps, the US economy is stabilising, but, in TARGET's opinion, it is much too early to sound the all-clear siren.

When it was apparent that the US economy was headed for a downturn, back in the middle to late 1999, many an economist said that any downturn would be short-lived and that, probably, the downturn would be reversed in the middle of 2000.

The marker was moved to the first quarter of 2001, when the middle of 2000 came and went, and when it was apparent that the world's economic situation was getting much worse than had been, initially, anticipated.

Now, the *'talk'* is that things could turn in the first quarter of 2002.

The problem with trying to prognosticate in respect of a waning or waxing in any economic cycle is that there are too many coefficients to the economic formula, thus making one likely to be more wrong than right, most of the time.

The best that one can hope for in any economic prognostication is that one knows the general direction.

It is all well and good for one to calculate how a company is likely to fare, given a set of statistics within an economic model, but, in the case of a world on the brink of a recession, one country's economic fungus can, more often than not, feed off the economic fungus of another country.

This is precisely what has happened in the case of the US economy and Euroland: The problems of the US have travelled the Atlantic and are having a dramatic impact on countries of the European Union (EU).

Europe, today, is in economic decline; Japan is in recession; most parts of Asia are struggling; and, the Arabs are, de facto, about to increase the price of crude oil by lowering exports of crude by one million barrels of oil, per day, effective September 1.

The oil cartel, known as the Organisation of Petroleum Exporting Countries (OPEC), in its determinations, predicated by greed, will aggravate the already tricky global economic situation, without question.

The West, led by the US, will have to take definitive measures to contain the Arab threat: OPEC may not hold the world to ransom.

Hence the statements, recently, by the President of the US, Mr George W. Bush, and his predilection to having an oil pipeline from Alaska, following drilling for Alaskan oil on the tundra.

The Arabs – excluding Iraq -- export about 40 percent of the world's crude oil so that any change in supply from that part of the world has an immediate impact, driving prices higher or lower, not just of oil, but of the cost of plastics to the cost of transportation.

The decade-long boom in the US, led by **I**nformation **T**echnology (IT) factors, caused the world to enter into a new age, now termed *'the new economy'*.

It is well named.

Nothing has changed in that respect; the Internet is here to stay; and, methods of the engagement in business have been altered forever.

As with any new advance in technology, there are survivors; and, there are casualties.

There is, also, irresponsibility.

On November 21, 2000, Caldwell Asset Management Incorporated of Toronto, Canada, sent out a 2-sheet **'Comment & Recommendation'** in respect of one of the former *'darlings'* of Canada: Nortel Networks Corporation.

Caldwell Asset Management claimed to have had a management meeting with Mr John Roth, President and CEO of Nortel Networks, in Boston, Massachusetts, just prior to the company, publishing its report.

The fourth paragraph of this recommendation stated: *'Nortel Networks shares should be purchased with a three-year target price of $*(US)*100 per share.'*

On the date of this recommendation, being sent out, Nortel Networks was trading at about $US36 per share.

As at last Friday, the share price of Nortel Networks closed at $US8.19.

Page 2 of the recommendation stated that the shares of Nortel Networks, at $US36, *'are trading at a multiple of about 40 times its current earnings per share. With earnings growing at 40%, however, the ratio of its share price/earnings multiple to its growth rate (PEG ratio) is reasonable 1:1.'*

TARGET has no idea what the above sentence was meant to impart to those luckless people, who read it and took the recommendation to heart.

Because Nortel Networks was enjoying a loss at the time.

The report, also, stated: *'With only one month remaining in Nortel's fiscal year, management expects that revenues and earnings per common share from operations for 2000 will grow by over 40% as compared to 1999 …'*.

Mr Brendan Caldwell was the author of the recommendation and he told TARGET, at the end of last year, that he met and interviewed Mr John Roth.

At this point, it is clear that either Mr John Roth is a fool, an irresponsible administrator, a misled chief executive officer of one of the largest companies in Canada, or an outright maladroit.

As for Mr Brendan Caldwell, if he had been led astray by Mr John Roth, then, he, too, is a fool to be sucked in by Mr John Roth's twaddle.

If, on the other hand, he did not meet and talk to Mr John Roth, but used Nortel Networks's handouts in order to manufacture his recommendation on this company, then, he has to bear the brunt of the outrage of any and all of his clients.

Because, if Caldwell's clients took action, based on that recommendation, they have lost a lot of money.

The point of this matter is not about Nortel Networks, Mr Brendan Caldwell, Mr John Roth, et al, but of the irresponsibility that permeated the aura when IT was a very fashionable term to employ.

And, of course, one must lay blame at the feet of those people, who fanned the flames of irresponsibility.

Today, hundreds of billions of dollars are being struck from balance sheets and shareholders' funds in the wake of the fallout that was the natural extension of international stock-markets' collapse.

There is no clear indication, at this juncture, that things will mend in the near future.

Banks, no doubt, will have to make material provisions for non-performing loans in addition to writing down investments and taking action to try to recover money, lent to those companies, which, only 18 months ago, were thought to be solid.

While the new economy companies may be on their knees, just now, old economy companies are still churning out profits because people still eat food, they still wear clothes, they still live in houses, and they still buy motor cars, etc.

Many start-up companies have collapsed and, from their ashes, like the proverbial phoenix, other start-up companies will rise.

International integration of systems is a guarantee of the future because, as the aeroplane made the world smaller, so the pace of electronic invention will make it that much smaller, again.

Telecommunication companies can no longer be confined to the borders of one country because there are no borders to electronic signals.

Eventually, fixed telecommunication systems will be as antique as the buggy whip.

Regardless of the present economic situation, regardless as to how impossible it may seem, things will turn. It is just a question of time.

Conclusion: A gradual accumulation of assets, now, may well reap huge benefits in the future.

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