LET CAUTION BE THE RALLYING CRY

One by one, major companies in the US, Canada and Europe are having to admit to situations, which could well lead them to seek the shelter of courts in order to protect them from the vice-like clutches of screaming creditors.

This is in spite of continuing and further signs of improving economic activity in the world's largest single economy, one is told, repeatedly, by various US Government departments.

Last week, Nortel Networks Incorporated of Canada, the second-largest manufacturer of telecommunications equipment in North America, announced that it would be sacking another 3,500 workers – having laid off some 50,000 of its workers, not more than 6 months ago.

Nortel Networks was a bad one, of course, in that its Management promised the world in its fast-moving road show; and, brokers in Canada and the US went along with Management, beating the Nortel Networks's drum – only to be let down as Nortel Networks imploded upon itself, leaving egg and scum on the faces of more than just a handful of people.

Questions are still being asked as to whether or not somebody should be taken to task in respect of Nortel Networks and its prior actions.

Did Mr John Roth, the former Chief Executive Officer, who left the company in disgrace, fan the flames of the Nortel Networks's fire, knowing full well that there was insufficient fuel to keep the company warm?

Did he utter falsehoods in order to justify his actions?

Did Canadian/US financial analysts know, full well, what the true situation was in the company, but went along with the loquacious Mr Roth in order to drum up business for themselves?

Nortel Networks, today, is trading at about $C3.45 per share (about $HK17.25 per share), its share price, having been as high as $C120 (about $HK600 per share) in June 2000.

This company's record is abysmal, yet respectable stockbrokers in both Canada and the US beat the Nortel Networks's drum with great enthusiasm.

Sadly, nobody yet has been nobbled over the Nortel Networks's debacle, as was the case with Merrill Lynch, which came into a settlement with the Attorney General of New York, recently, paying a fine of $US100 million for disseminating research material, which was biased and favoured Merrill Lynch and its banking arm, to the detriment of investors, who had accounts with the brokerage house.

Here is a little snapshot of Nortel Networks, which tells the tale for itself:

Date	Total Revenues	Net Loss Attributable to Shareholders	Number of Workers Employed
December 31, 1999	$C22.66 billion*	$C197 million	76,712
December 31, 2000	$C29.14 billion	$C2.96 billion	94,500
December 31, 2001	$C17.44 billion	$C27.46 billion	52,000

$C1=$HK5

In December 1999, the shares of this company were trading at about $C28, each.

In June 2000, the shares of this company were trading at about $C82, each.

Between June 2000 and July 2000, the share price shot up to $C120.

No shareholder has ever received a dividend from Nortel Networks.

For the Current Financial Year, ending December 31, 2002, Nortel Networks has told the world that it can expect more of the same.

One could comment that, at least, now, the company is playing the game, honestly.

Which, by innuendo, suggests that it was not playing the game, honestly, in the past.

This Company is but one classic example of what transpired during those heady days between 1999 and the early part of 2001.

Now, one is told that the US economy is on the mend and, as a direct result, it is said by some financial gurus that there is an economic pickup of activity in Asia.

The major factor behind the Asian improvement – or seeming improvement in Asia – is the perceived US economic recovery, which was said to have started to go into high gear in the fourth quarter of 2001.

The North American Book-to-Bill Ratio stands at about 1.20, which compares favourably with the North American Book-to-Bill Ratio of about 0.77 in the October-November 2001 period.

Taiwan's manufacturers have reported that they have geared up for increased consignment production.

These manufacturers are still awaiting for the orders to flood in.

Their efforts to beef up production and production capacity could well backfire on them, and their excess manufacturing capacity could well mean a further softening of prices of assembled electronics, parts, and electronic accessories.

Shipments of chips from Japan to all parts of the world have turned markedly higher in the first 5 months of this year, but international chip prices have fallen, considerably, compared with a year ago.

And there is every prospect that prices will continue to be eroded: Supply-demand factors are kicking in.

Major producers of chips in Japan are cutting back production levels, with Scottish factories, owned by companies, such as NEC, shutting their doors for good and considering moving to the People's Republic of China (PRC) where the cost of manufacturing is lower.

In the petroleum industry, polyvinyl chloride pipe and other such products, used in the petroleum industry, are witnessing a decided softening in prices.

Japan is saddled with its decade-long legacy of economic negativity, of course, and there is not yet, even a candle light at the end of that tunnel.

Falling demand for goods and services in the US has not yet been fully appreciated, as can be seen by the fact that US manufacturers have yet to bring their capacities in line with the falling demand.

The US consumer is not buying at the rate that was expected, just one month ago.

Of that, there is no question.

With a weak consumption level in the US, factories are having a very lean time of it: Some factories will, no doubt, have to close down, or scale back.

More unemployment is on the way, without question.

Major international equity markets are struggling, due in part to the very real prospects that there could be another major terrorist attack on the US, or on a US territory.

Also, there is the nagging fear that many companies, such as was the case with Nortel Networks, are hiding corporate liabilities.

Investors are concerned, also, that corporate profits may not rise fast enough and soon enough to sustain current equity valuations.

Indeed, it is clear that many companies' share prices are terribly over-valued, considering their prospective earnings for this year.

Palm Computing shocked some analysts, last Thursday, when it announced that it was fairly certain that it would suffer a loss of the fourth quarter of this year.

It was only a month or so ago that Palm Computing said that it expected to break even in the fourth quarter.

The company, also, said that sales in the fourth quarter were likely to be down about 25 percent from previous estimates by officials.

Mr Eric Benhamou, Chief Executive Officers of Palm Computer, said: *'Demand in spring did not materialise as we had previously expected, but rather market conditions deteriorated, compared to both the year-ago quarter and recent months …'.*

Getting back to Nortel Networks, it would appear that even at about $C3.45 per share, Nortel Networks could be said to be terribly over-valued since the company has told the world that it has little chance of a turnabout this year.

Even though interest rates are at a decade low, corporate debt has not been reduced to a manageable level for many a company – because earnings can hardly support debt service.

Sacking workers, now, reduces immediate operational costs, no doubt, but it can, also, hamstring a company with regard to upgrading product and maintaining quality control.

Nortel Networks claimed, when the company was known as Canada's largest employer and the biggest Canadian company by market capitalisation, it was employing not less than 1,000 researchers, all of whom possessed doctorate degrees.

It is questionable that such an expenditure was justified, then, and certainly not now.

The economic situation in the world, today, is shaky, and there appears to be more negatives than positives on the horizon, at this time.

As the bard would have put it: Let caution is the watchword.

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