

MARKET STOCKS YOU SHOULD OWN WITCH™

www.marketwitch.biz

Single Issue \$2.95

August 1, 2003

Volume 8 • Number 8

Market Witch is a compendium of theory, context, and information about the equities markets and the factors which affect them. Market Witch offers the broadest and most comprehensive perspective of any financial monthly you can buy. We focus upon what occurs in our culture, and others, that affects the equities markets, how we profit from it, and how you can, too. Market Witch is available via the internet, \$2.95 per month or \$23.95 annually. Contact editor@marketwitch.biz, or telephone 614.323.8581 for further information.

Our website, <http://www.marketwitch.biz>, will be available in about a month, offering downloads of both the current month and also our past monthly issues, and providing a wealth of information about stocks and the economy and also about us and what we do. We're in our 8th year.

WHERE DID YOU GET YOUR FERRARI? I BOUGHT IT ON EBAY

Happy August, America! We hope that your life is such that you can arrange to fit in a vacation this summer—employed Americans do *not* take enough time off, which is of course one of the reasons why we have a \$10 trillion economy—and visit some of our great beaches, mountains, wildernesses or cities. Make sure not to miss some of these *perfect* summer days. Our favorite spots this time of year: the Outer Banks, and the downtown city beaches of Chicago. The market seems to have stabilized in the low 9000s, the NASDAQ has settled up into the 1700s, and the world is *comparatively* quiet right now. An American has won the Tour de France *again*, Uday and Qusay are gone, and no new offensives are afoot. So let's take advantage of this situation and talk about eBay. We'll get to it in just a moment.

The War: Uday and Qusay may be gone but it took \$30million in *baksheesh*, which is the Arab way, not the American way. The Arab Game: Catch 22. The Arab world won't

accept the bro's deaths as fact without photographs. If we *publish or broadcast* photographs, the Arab world then says it is against Islamic law to do so.

Is Iraq Viet-Nam? Sort of, but not exactly. There *will* be comparisons to Viet Nam here at home: Americans are *not* comfortable with losing two or three young US soldiers every day for no reason to guerilla warfare. And Bush will pay a price for this. In the wake of Iraq, the entire Islamic world has settled into a sort of monolithic unified religious empire whose prevailing attitude, enormously reinforced by Islamic media, is that American military forces should *not* be in the region *at all*. While there is a young, educated, progressive, and westernized element in several of the countries in the region, especially in Iran, there is no hint of remorse whatsoever in the Arab world for the 9/11 World Trade Center attack upon the United States, and no change at all in the prevailing attitude toward Israel and the Jews, which is: extermination. The prevailing opinion in the Arab world re: Postwar Iraq is that Iraq now needs a new theocratic Islamic government, just as the rest of the Islamic world has, and democracy be damned.

Meanwhile there has not been one peep of apology in two years from the Islamic states over the September 11, 2001 attack on the United States, which killed thousands of innocent people.

We would argue that what is needed on America's part is not additional displays of military force but a systematic assault on the Islamic world using American culture as the weapon of choice. In the immediate wake of 9/11, in October of '01, we argued that the most important single thing the US could do to break the monolithic Arab stance was to take advantage of the timely sympathy of other western nations to bomb Al Jazeera into oblivion without any reprisal. Eliminating Al Jazeera will be more difficult now; it will have to be done carefully, surreptitiously and with Special Forces, but it still needs to be done. Al Jazeera *still* must be taken out, and the sooner the better. And following that, the United States needs to inundate the Middle East countries with a blitz of PR, advertising, and most importantly, PRODUCT and CONTENT representing the mainstream American way of life. More occupation in the Arab world by US troops= stiffer resistance to change on the part of the Arabs. There is NO DEFENSE, HOWEVER, AGAINST CAMERON DIAZ IN *CHARLIE'S ANGELS II: FULL THROTTLE*. There just ISN'T. And we should be blasting this sort of thing into the Arab universe nonstop, 24/7, right now. American culture eventually will take down the Arab world, and Arab women will be freed from thousand-year-old social roles and Arab men will become global entrepreneurs and Harley riders instead of psychopathic religious nuts, and Arab children will get useful secular educations.

But this process could be speeded up dramatically if our own American government understood the use of media. *The ultimate shock and awe is not aircraft carriers and smart bombs, it is Terminator 3 and Lara Croft: Tomb Raider and M&Ms and Starbucks and Camel cigarettes and Pizza Hut and Oreos and Tampax and Jeeps and Krispy-Kreme.* It is way more important that Arab men read *Maxim* and *Wired* and for Arab women read *Elle* and *Vogue* and *Business Week* than it is for the US to maintain occupational forces in the Middle East for the next two decades.

America's Rhinestone Depression continues. Things are not much worse but they are no better, either. Joblessness has increased slightly. Upscale restaurants are *not* doing well. Many Americans who, a year ago, were giving canned goods to food pantries, now are standing in line for charity food. A "leadership economic sector" that people could look to as the engine that will begin to pull us *out* of this has *not* appeared. Some of my favorite markers, including people buying good wines by the case, or "trading up" to premium brand beers, or going to dude ranches or on other exotic vacations, or whether men are buying white work shirts, or whether *living* artists, those who are not dead and famous, are actually *selling* any work, or whether products are flying off shelves in retail outlets for consumer tech, all these things show no improvement. Office space, storefronts, warehouse and manufacturing spaces have been vacant for months, even *years*. Of course the blinding intelligence and clear understanding of the American economy on the part of that wizard John Snow is helping to solve these problems.

We think it is now approximately early 1934 in "parallel time" in America. We have endured 3 1/2 years of a Second Great Depression. Some 4 million++ Americans are out of work. *Approximately 7 million more are underemployed and underpaid, i.e. unable to find jobs commensurate with their marketable skills and forced to take any "McJob" employment they can get, if they can find even that.* A new term that has recently entered the American vocabulary is "Duppie" which stands for 'Depressed Urban Professional... one who is underemployed, whose 401K has crashed, whose health care benefits are cancelled or dwindling or increasing in cost, who is in credit card debt up to his/her eyeballs (Americans currently have \$1.7 trillion dollars in card debt) and who is hanging on to 'middle class' status by the skin of his/her teeth.

The financial community *finally, after 3 1/2 years, is beginning* to blame Alan Greenspan for having destroyed the American economy, and to take steps to demolish his reputation and hopefully his employment as well. We will be delighted to see Alan Greenspan broadly discredited by people who now realize he caused this mess via drastic,

uncalled-for, and destructive interest rate hikes and now can't fix it. We will be even more delighted to see him unemployed. We would like his shoes to be filled by Robert Rubin.

Meanwhile, the most interesting- and most *frightening*- thing going on here in the "homeland" is that we now have *single-party rule*. This is uncharted territory for the current generation of Americans. It has turned out to be not a good idea in places like Argentina and it is probably not a good idea here either. It has only happened once before in the United States and that was during the years immediately following the American Civil War, after the South had been not just defeated but brutally crushed. We currently have two Americas, and we have approximately the same number of American citizens in each one. One is now in power, and one is completely politically disenfranchised, totally without political power. One is powerfully represented by the legislative, and the executive branches and probably soon the judicial branch of American government. And one has no representation at all.

The Democratic Party has been destroyed. The last three years, for the Democratic Party, have been "the night they drove old Dixie down". The party has been destroyed as surely and as thoroughly as Sherman destroyed Atlanta by a well-funded Republican juggernaut. The Republicans have succeeded beyond their wildest expectations and perhaps too well.

Here is who votes Republican in the United States: everyone in all four branches of the armed services. Everyone in the various intelligence agencies and 'black funding' agencies. The middle-class segment of the Latino community. The Teamsters. *All* of the fundamentalist Christian right. All MDs and DDSs. Everyone in professional sports including those who play or support football baseball basketball tennis golf and NASCAR. Almost all 'bikers'. The "WASP" community. Most 'white-collar' workers and most middle-management employees. Most "upper middle class" Americans. Most of the advertising and television community. About half of America's farmers. Everyone in our police forces and law enforcement agencies. Most corporate attorneys, most business executives, and everyone at white-collar level in the banking and financial communities. And here's who represents them: the most powerful and most conservative group of 'executive branch' leaders *ever*. A ruling majority in the Senate and the House of Representatives. And most of the Supreme Court.

Here is who votes or should be voting Democratic: All PhDs, professors, scientists, and academics; everyone who teaches in a college or university. Everyone who teaches is in a public or private school or who is in a teachers' union. Everyone who has a "liberal arts education" and so is unemployable except as unskilled labor in our society. All trade union

members except the Teamsters. Everyone in the Hollywood film industries. Everyone in Silicon Valley. Most of the supplemental health care community, i.e. nurses, med tekkies and anyone else in supplemental or assistant hospital or health care work who is not an MD or a DDS. All “greens”, all animal rights activists, and all wilderness advocates. All “sexual freedom/sexual-liberation” advocates of every stripe including gays lesbians bisexuals TVs swingers s/m devotees etc. Everyone in the “sex industries”/sex “professions” and porn industries. Everyone in the “entertainment” world. The entire African-American community. All feminists/radical feminists/ empowerment advocates. All of the Latino community which is outside the middle class. All Catholics and all Jews. Everyone who is interested in “recreational drugs”. Everyone remotely associated with AIDS or any other STD. Everyone in the music business. Almost everyone in the mental health professions. Almost everyone who makes a living in the “Outlaw Economy.” All attorneys who are not corporate attorneys. Anyone in the ‘service’ occupations: maids doormen exterminators cabbies hotel employees barbers etc. Anyone who has a tattoo or a “piercing”. Most people who live in major American cities but not in the suburbs of those cities. About half of America’s farmers. All young, underemployed people. All “New Age” people including Wiccans, Vegans Unitarians and various other obscure religious and cult groups, and all practitioners of marginal or elite philosophies or health care systems. Anyone whose 401K has crashed, anyone who has lost his/her health insurance, and anyone who has become unemployed since 2000.

And here is who represents these people: part of the Supreme Court. And other than that, *NO ONE*.

Do you really think Howard Dean or John Edwards or Joe Lieberman want to represent Wiccans, stoners, astrologers, DeadHeads, strippers with union cards, Latino gang members, tattoo artists, treehuggers, polarity therapists, yoga instructors, literate blackjack dealers, megavitamin advocates, Afro-American Hip Hop Brothers, marginally criminal blue-collar whites and homosexual human rights activists who want gay marriage rights and free HIV treatment? *OF COURSE NOT*. These guys want to represent an idealized phantom constituency that they view as the likes of Atticus Finch. Well, listen: Atticus Finch is *dead*. And so is the Democratic Party, which has refused to recognize its constituency or address their needs and wishes, has been tar brushed as traitorous, has lost its following and has died of malnutrition.

Surprisingly enough, Dennis Kucinich, who has a strong labor union background, is the candidate with the most affinity to these ragtag masses and the most likely to be able to speak to this crowd in its own language. And of course Dennis Kucinich is viewed by what

tiny Democratic 'establishment' still exists as hopelessly radical and unelectable. Which simply proves our point.

Democrat Presidential candidates in blazers and ties and cordovan loafers cannot hope to relate to this huge motley constituency who think that John Ashcroft and George Bush are Hitler and who feel that people like Joe Lieberman have no clue what their beliefs and values are much less the will or skill to represent them. A leader of this unrepresented constituency would be viewed as a lunatic by the likes of John Ashcroft and Karl Rove. Just as John Ashcroft and Karl Rove are seen right now as lunatics by these powerless millions. The difference *now* is that once there was a balance of power in the United States. Now there is not.

This is one of the most interesting things that has ever happened in the United States. And possibly also one of the most dangerous. There hasn't been anything like it since the end of the Civil War when the North annihilated the South. What we have now is a one party-system. *And an ENORMOUS SPRAWLING CONSTITUENCY, possibly even a MAJORITY, as variegated as the very geography of this nation, which has NO POLITICAL REPRESENTATION WHATSOEVER. And NO VOICE and NO POWER.*

Half of America is now without *ANY* political representation, and the situation is a tinderbox. It presents the opportunity of a *lifetime* for someone because this is a constituency waiting for a demagogue to stand on a box and begin talking to them.

Voiceless masses of people like this one now forming in America have in the past listened to the likes of T.E. Lawrence and Will Rogers. But they also have *also* on occasion found their leadership in the personages of Lenin and Hitler. Those among us who are Republicans have succeeded too well. Now we are damned either way. God help us if a demagogue comes along to speak for these 10s of millions of unrepresented Americans. And God help us if one does not.

Compass points:

-Southern Methodist University has become the first traditional institution of higher learning to offer an undergraduate major in: video game design.

-Ford Motors will market a small affordable SUV called the EcoSport in South America. The world's number 2 automaker will roll these \$13,800 vehicles out of a \$1.9billion factory in NE Brazil. Ford hopes this machine will help break five consecutive years of losses for the company in South America. South America's notoriously rugged roads are made for SUVs. But the average price of an SUV is \$34,000, which will buy a nice house in most parts of S.A.

-IBM did most-recent-quarter business of \$1.7billion, up sharply on a 10% revenue gain and a terrific 23% gain on its business services divisions, and putting IBM back onto our “basics” buy list after a long absence.

-Mattel's *Barbie*, born in 1959, one of the most successful toys in history, and now your grandmother's doll, is losing market share. Mattel is about to launch a line of ethnically- ambiguous *Flava* dolls to capture the young, Asian, Latina, and hip-hop markets, and to compete against the very successful *Bratz* dolls. Mattel also will offer a gray-haired, slim and fit 'older couple' *Ken* and *Barbie* pair, officially offered as the parents Barbie's sidekick doll *Midge*, to bolster the Barbie brand.

- Banking legend and Citigroup CEO Sanford Weill will step down January 1st and hand the reins over to Charles Prince, a long-time right-hand man to Weill. Such a shift always means a bumpy stock for a while.

-Harley-Davidson, soon to begin its 101st year, had a record quarter (what a surprise; every quarter is a record quarter) of 66cents a share. We are expecting Harley shares to move to the \$60-70 range during '04 and probably to split. Our target price for Harley, without split adjustments, for '07 is \$145-155. In late July we attended a "small" charity motorcycle "run" that finished at the courthouse square of a county-seat town on a perfect summer Saturday evening. This "small" event drew about 800 bikes, all but four of them Harleys, and raised more than \$9,000 for a charity. Events of this size are a perfect way to get a sense of the tremendous brand-name power of Harley-Davidson. A 'motorcycle' is transportation; a *Harley* is entry into the most broadly-recognized subculture in American history.

-Yellow Corp. will buy Roadway for about \$1billion, consolidating the American trucking industry to just two players, Yellow-Roadway and Arkansas Best. We follow the trucking biz but we do not consider either of these companies investment material at the moment. Ask us again if oil falls to \$16 a barrel, or when there is an alternative energy breakthrough. Sign us up, though, for shares of UPS, FedEx, and Union Pacific.

-The surprise hit television show of the year: *Queer Eye for the Straight Guy*, on Bravo. Premise: a fashion-conscious, aesthetically-aware rat-pack of gay men take a willing but clueless and typically shlumpy heterosexual male with a dirty shirt collar, a '70s or '80s ponytail, a scraggly beard, and scruffy basketball shoes, and do a "makeover", turning him into a well-dressed well-groomed and *attractive* Warren Beatty or Leonardo Di Caprio type in a very funny and thoroughly-engaging hour-long weekly "documentary". This program plus the recent Supreme Court decision over a Texas sexual law signals the mainstreaming of gays into American life. A July 18 proposal in Canadian Parliament would define marriage as

“the lawful union of two persons”, which would effectively legalize gay marriage in Canada. A court decision looms here in the US on this matter in Massachusetts. A war is on between the Two Americas over the issue of “gay marriage”. The best way to de-fuse the issue would simply be to *change the label*: that is, to simply *call* gay marriage *something else*, give it a name that the Pat Robertson crowd would find less threatening but would give gays insurance and inheritance rights. It is clear that gays are slowly being demarginalized in our society. *Crass class project: what companies will make money on the demarginalizing of gays? Crass note to crass self: market research on how gays spend money.*

-America’s current most-wanted car: the Toyota *Matrix*.

- Small pleasures: the retail clothing sector, another marker for the Rhinestone Depression, is still in financial trouble, especially since teens, twenty-somethings, and young professionals continue to buy their clothing in secondhand ‘thrift’ stores (a local one near us, named Rag-o-Rama, is so popular that it has become a social magnet and is packed with crowds of young people hanging out on weekend evenings). But American women of all ages are spending record amounts of money on “little” upscale make-up products like high-end mascara and the new ‘sparkly’ lipsticks that make them feel better even though budgets are tight. One of several big winners is Max Factor, a Proctor and Gamble company.

-Canada lowered its prime rate by 1/4 point. The US Fed now says it will leave American short-term interest rates at their current rate, the lowest in four decades, for “as long as it takes” for a recovery, and may cut the Fed rate even further to fire up the economy. People seem to believe mortgage rates won’t go any lower, but they’re wrong. Our true unemployment rate is higher than 7% because after a certain amount of time has passed, the unemployed are dropped from the government stats.

-MSNBC, broadcasting way left of center with talk-show host Phil Donohue, fired him and replaced him with right-winger Michael Savage (see savage.com) last March. Four months later, the popular cable channel has dumped Savage. We take this as a good sign and we hope it is a bellwether for a new centrism, which is where our economy functions most successfully.

-Nokia’s most recent quarterly report suggests that *no* consumer tech recovery is in sight and that cell phones *in their present form in America* are no longer a status symbol, even though more advanced, highly-featured 3G/camera phones are must-have teen fads in other parts of the world and are selling like crazy in Asian markets We will talk much more about telecom next month.

-Microsoft's quarter was *very* strong- a 26% profit jump on an 11% increase in sales- but the company seems to have said no to an increase of its recently-begun quarterly dividend even though MSFT is sitting on \$49 billion in cash. We *think* Microsoft's quarterly numbers indicate a very very slight increase in corporate IT spending...but of course what corporate IT dollars *are* available are going to IBM and Microsoft, *not* to a broad spectrum of tech companies. Perhaps more important is that bellwether Microsoft plans, starting next month, to stop issuing stock options to employees and instead issue restricted stock awards that vest over five years.

-Geneticists and botanists at University of Wisconsin at Madison have inserted a gene from a wild Mexican potato into our commercial potatoes, making them resistant to the potato blight that starved a million people in Ireland during the 19th century. Yet Europeans continue to rage and demonstrate against "genetically-engineered food" which they call "Frankenfood". The breakthrough not only shows how hidebound, obstinate, and recalcitrant the Euro community is about this matter, but also will likely save American farmers \$100s of millions of dollars every year in reduced costs for fungicides, and will help control or even eradicate a disease that has plagued farmers for nearly two centuries.

-Wal-Mart has just opened its first store in Peking (or 'Beijing' as it is politically-correct to say now). This is Wal-Mart's first attempt at cracking a major metro market in China, after having opened 22 other Wal-Mart stores in smaller cities and more rural areas to take advantage of China's growing middle class and their fattening pocketbooks. Wal-Mart has done business in China for 7 years, having first opened a store in the southern Chinese city of Shenzhen. Wal-Mart's presence in China is an important marker for how well Chinese accept foreign economic influence and for whether China will become 'Americanized'. We do *not* yet see China as politically or economically stable; it is still in many ways a 3rd world economy and an economy that relies on piracy, theft, and disregard for patent and copyright law. Wal-Mart may exert a stabilizing influence in China. But there also may be a reaction among the Chinese against Wal-Mart. Market Witch views Wal-Mart as a destructive force in the United States-- a destroyer of small-town American economies. We suspect that Wal-Mart stores will have a similar effect in China (and Brazil and wherever else Wal-Mart chooses to compete). But Wal-Mart may *not* be a destructive force in China; Wal-Mart's presence may help drag China into becoming a participating and law-abiding member of a global economy. Either way, there is no question that Wal-Mart is the most important retailer of our time. And that investors in Wal-Mart shares will make money.

-Our visit to the NHRA (National Hot Rod Assn) annual rally this year left us with the impression that Americans who love cars believe it is time for America's Big Carmakers to rip a page from Harley-Davidson's book and make us some retro/repro cars. High on the list among car buffs: from Ford, a repro '50 convertible, a repro '55 T-Bird, a repro '58 T-Bird, and a repro '56 Ford station wagon. And from GM: a '53 Corvette, a '58 Corvette, a '55 Chevy Nomad station wagon, and a '49 Chevy pickup truck. Consensus among classic car fans is that GM and Ford could sell these repro vehicles at premium prices and both companies would earn \$\$\$\$\$\$\$\$ offering special "classic" vehicles with modern engines and conveniences and real brakes and suspensions.

- Since shortly after the market crash of 2000, we have often explained that stocks which pay dividends would play a major role in the investment world for much of this decade. As of July of this year 120 of the 500 S&P companies have increased their quarterly dividend.

-Hillary Clinton's autobio, *Living History*, has sold a million copies. And Ann Coulter's radical right book *Traitors* is a best seller and that makes two in a row for her. Coulter, an upper-class Yankee from Connecticut and a child of privilege from Cornell and University of Michigan Law School, apparently believes J. Edgar Hoover and Senator McCarthy are true American heroes...but her take on the demise of the Democratic party is accurate. Three years ago *Traitors* could not have been published in the United States: a testament to how far right the nation has moved. The liberal New York Times has called Ann Coulter a "paid banshee." To understand how the US is changing, it is important to read what "this woman" (as opposed to "that woman") is saying.

-The FDA plans to phase in new rules for the nutritional panels packaging for many US foods. New rules will require producers to list amounts of "trans-fats" (read: "partially-hydrogenated vegetable oils") in some of the products we eat.

These new regulations must be in place by '06. They may force companies who make some of America's favorite foods (Whoppers, Big Macs, Jif, Oreos, potato chips, etc) to change their recipes very slightly to avoid stigma. Will this affect Krispy-Kreme's march to global brand recognition? No. A top Krispy-Kreme exec recently told the Wall Street Journal that KKD's goal is to become the world's most beloved brand name. He also projected 600++ KKD's in the USA in 3-5 years, and a continuing long-term earnings growth rate in the 40%+ range. It is also worth noting that Krispy opened a store recently in Medford, Massachusetts, which did \$506,917 in business during its first seven days.

-Book of the Month: *Mexifornia* by historian/classicist/social commentator Victor Davis Hanson. Why does the USA work? *E Pluribus Unum*. From many, one. Politically-correct values in the USA during these past three decades have emphasized just the opposite: from one, many. Assimilation works. Multiculturalism does not. Assimilation *creates* nations. Multiculturalism *destroys nations* or *prevents them from forming at all*. If we are to continue to be strong and prosperous nation we must be one people, not many peoples. You know it, I know it, Victor Davis Hanson knows it. *Mexifornia* is the first very important book of the decade. Its release is as important as that of Rachel Carson's *Silent Spring* in 1962 and *every bit as much of a wake-up call*. This book is destined to have enormous influence upon public policy in America this decade and it is a testimony to the effect one person's clear voice can have on the direction of the county by calling out that the emperor has no clothes. *Mexifornia* is published by Colliers Encounter books. You can buy it via Amazon for \$17.47.

- The first Iraqi rock band, named *Unknown to No One*, has broken through into visibility. Expect an album soon.

-The federal Equal Pay Act of 1963 guarantees pay parity for women. Despite a federal law that has been on the books for *forty years*, pay equity for woman still is a long way off in most parts of the USA. Linda Chavez-Thompson, Executive Vice President of the AFL-CIO, says that nationwide, most women will not achieve equal pay for a generation or more. The AFL-CIO studied employment in 17 states and their results show that on average, employed American women won't take home an equal paycheck until 2035. According to the union, the District of Columbia is closest to ending the wage disparity, and will likely achieve equal pay status in 2006. Other states making progress: Iowa, Arizona, Maryland, Michigan, Alabama, Kentucky, Missouri and Idaho. *Among the worst in disparity of pay: Connecticut, Florida, Pennsylvania, Massachusetts, and New York*. The wage gap has fluctuated over the years, and was closest to parity in 2001, when women received on average 76.3% of men's wages. The rate has since fallen.

-A shift in the cultural leadership force: *AmericanStyle* magazine reports that Chicago now ranks as the art capital of America, having replaced New York City. We do not think it matters to the artists very much; "art" in America falls under the category of discretionary spending. Most Americans haven't had much 'discretionary' money for three years. And so living artists, those who are *not* long-dead, with work that becomes classic and appreciates with the years, cannot sell their work. And so most American painters sculptors, etc. have been working at "McJobs" *if they can find them* for two to three years. But this is a coup for Chicago, which has long been viewed as a banking, advertising, and educational capital.

Many of us believe that the blow which New York City incurred two years ago next month, a blow which was taken for all of us, was one which caused irreparable damage to NYC and that the Manhattan many of us knew and loved, the land of “Breakfast at Tiffany’s, Lou Reed, Woody Allen and THE street, Wall street, may now take decades to heal and repair itself. The one thing Chicago does not have: Central Park, now celebrating its 150th anniversary.

-Return with us to the glory days of Eisenhower and the Mouseketeers: 3M, whose CEO was one of Jack Welch’s protégés, has had a blowout quarter and has returned to its rightful spot as the nation’s pre-eminent “conglom”: dozens of beloved products in *many* sectors, huge fat black numbers and a big dividend as well. 3M is an expensive stock. Will it go higher and will the company continue its ascendance? Yes.

-Takara Company, a Tokyo-based Japanese firm, manufactures a \$100 ‘toy’ called *Bowlingual* which translates dog barks into words. The company has sold 300,000 of these ‘toys’. The Bowlingual analyzes barks, translates them and displays them as an electronic message on the collar unit which the dog wears. Bowlingual uses technology developed by Japan Acoustic Lab, a research institute that analyzes voice patterns for Japanese criminal investigations. Bowlingual has been available in Japan for nine months and has been available in South Korea since May. You’ll be able to buy one in the United States beginning this month. UBS Japan has a “buy” rating on Takara. Available this coming November: the Meowlingual.

Now let’s look at traditional investment skills and look at *COMMITMENT MONEY*.

No matter whether you have a small amount of money to invest in equities, or a great deal, take a look at how much available cash you have, and come up with a theoretical sum of cash that represents TOTAL COMMITMENT on your part to a stock. A sum that represents a MAJOR financial commitment, a HUGE, SERIOUS financial COMMITMENT, a sum that represents your hopes and dreams but more importantly your UTTER CERTAINTY that the company you’re looking at is going to show big fat black numbers every quarter, is going to make a veritable fortune for its shareholders, a company whose shares you are absolutely CERTAIN will double in value every couple of years. What IS that commitment money figure? We want a specific dollar amount. \$25,000? \$50,000? \$10,000? WHATEVER that figure is, know this: If your ‘commitment money’ figure is \$30,000, and you are not sure enough of the company to put THAT amount of money into the stock, then DO NOT BUY THE STOCK, and SCRATCH that stock OFF your list

and do not think about that company *any more*. If your ‘commitment figure’ is \$30,000 and you can look at the stock and say to yourself “Of *course*; this is a no-brainer. I only wish I had more money and could buy more shares” and “holy cow, if I do not buy this *right now* I’ll just end up having to pay *more for it* down the road” then go ahead pull the trigger, or phone your broker and say “ok, let’s do it.”

We *know* this technique works. At one point, when we were poor and did not have the proverbial two nickels to rub together we used it to put every dime we had into one stock. And today we compare all potential commitments to that one. *You* need not go that far. But make sure the dollar amount of your commitment figure represents at least same level of commitment you would have starting a business with a partner, for example, or buying a house. Use this technique to winnow out stocks you are lukewarm or uncertain about. Use it to help keep you from making bad choices. Play the same odds that insurance actuaries play: make fewer trades, make fewer mistakes. Make fewer mistakes, make more money.

Now with that skill in mind, let’s talk about eBay.

We began the late ‘90s era paying no attention to eBay whatsoever. In a sea of new and soon-to-be successful dot.coms and internet-related companies (Verisign, Yahoo, etc.) eBay seemed to us a real toad. A glorified garage sale with the same appeal as the flea markets that are held in abandoned drive-in movie lots on Saturdays. We began paying real attention to eBay when a friend bought a signed Picasso lithograph on eBay, and then a kit to build an ultra-light airplane. I learned reading interviews with her that eBay CEO Margaret Whitman is a smart cookie, possibly a genius, and one of the great visionary CEOs of our time. When the stock market crashed and the NASDAQ collapsed, I stopped paying attention to eBay. Ebay went right on. In a Second Great Depression, people turned to eBay to buy and sell trinkets, large and small, (in the process legitimizing part of the American “outlaw economy”) to earn money when there were no jobs, to start small ‘eBay businesses’ buying and selling stuff on eBay, and using the online marketplace as a cheap amusement in lieu of boom times \$20 cigars and cases of foreign wines.

Ebay has now achieved the *both* of the ultimate status/success conditions a company can achieve. It is an ideology unto itself; a private universe with its own ardent population. What other companies have that status? Harley-Davidson and Krispy-Kreme; that’s about it. It now is possible to buy anything from a rubber-band collection to a champion race horse on eBay. There are *eighteen thousand categories of merchandise on eBay*. Tens of thousands of Americans make their living using eBay as a venue. Ebay has wholly or partially-owned subsidiaries in Australia, Austria, Brazil, Belgium, Canada, France, Germany, Ireland, Japan,

the Netherlands, New Zealand, Singapore, South Korea, Spain, Sweden, Switzerland and the UK. Ebay is now slightly more than _ the size of Harley-Davidson, with annual revenues of \$1billion plus, earned about eighty-five cents per share in '02, and got 98% of its income from online services. We continued to be amused.

Last October, eBay bought PayPal, and because we had friends who owned PayPal shares we watched to see what would happen. In a few short months eBay cleaned up PayPal's act, plugged any holes it had in its system, made it less vulnerable to thieves and hackers, and legitimized it. In doing so, eBay became a *financial institution. A bank.* And a much more formidable financial institution than, for example, American Express. Via PayPal, eBay receives a tiny cut of a *surprisingly large per centage* of ALL Internet financial transactions. As the Internet continues on, and becomes *THE* global marketplace, eBay will become as important a 'retailer' as Wal-Mart. We are no longer simply amused, we are very very interested.

Ebay also has, like Harley-Davidson, become a *monopoly*. Which is one of our very favorite investment flags. There is no substitute for eBay, like there is no substitute for Krispy-Kreme, Scotch Tape or M&Ms. To do a certain kind of business, there is no place else you can *go* but to PayPal, and so to eBay. We love that.

Ebay also has gone from being a flea market toad to garnering that other status/success symbol we look for in key stocks: it has achieved cult status. It is now possible to buy things like "a lunch with Warren Buffett" on eBay for a quarter of a million dollars. The company has gone from being a part of the proletarian dregs during the early years of the Rhinestone Depression, a place where people who wear unironed plaid cotton flannel shirts all the time got their butter-and-egg money, to being a part of the CoolHunt, something with as much status as Gucci.

"Where did you get your Ferrari?"

"I got it on eBay."

Holy cow.

Ebay's P/E is appalling, no question. I think currently about 120.

Of course we think less of P/E as a marker than many people do. A year ago, Krispy-Kreme's P/E was 100, and in a year the company 'grew it down' to 50 or so. Ebay is growing revenue at a rate of 150+ %. And is growing earnings at a rate of approximately 160%. The company also has a debt/equity rate of *ZERO*. No debt whatsoever.

Ebay is an expensive stock, no doubt about it. Yes, we think the shares are very expensive. But we thought the shares were expensive at 80. We do *not* see eBay as a

compelling buy the way we see Harley and Krispy in the mid \$40s and Corning at \$8. But what can you do? The company has created its enormous customer base during the very bowels of the Second Great Depression. And has helped many Americans keep a roof over their heads and gas in the tank.

eBay customers/participants/players are 'lifers'. They will continue to use the company all their lives. Additionally, eBay is now one of the most successful, most recognized, and most marketable brand names on the planet. And as the decade moves on and the economy improves, eBay's revenues will grow as well. We expect eBay to begin paying a small quarterly dividend in two or three more quarters. Meanwhile, we expect the shares to only go up, as eBay continues its global monopoly and buys things like PayPal with the profits. Shares are expensive now. But there is that 150% growth rate. eBay will probably do about \$1.50 per share in earnings for '03. As the decade moves on eBay will likely do two or three times that much business. As eBay legitimized PayPal, PayPal also legitimized eBay. Should CEO Margaret Whitman be the first Woman President? We could do a lot worse.

As we were writing this eBay announced its quarterly results—33cents, 3cents above estimates, revenues of \$109million, *double* the \$54 million a year ago—and announced a 2:1 stock split. How to play this? Wait til two or three months *after* the split takes effect—stocks always "languish" a for a while after a split—then buy. We'll tell you when *we* buy.

Market Witch monthly 'buy' lists:

THE BASICS: Safety, stability, dividends:

General Mills, Union Pacific, GM, Altria, RJR Tobacco, British-American Tobacco, US Tobacco, Nestle, Porsche, Hershey Foods, Coca-Cola, Wells-Fargo, Goldman-Sachs, CSFirst Boston, DuPont, Dow Chem, Briggs & Stratton, John Deere, Cummins Engine, Kellogg, Toro, JM Smucker, NovaStar, Realty Income Inc, Thornburg Mortgage Asset Inc, Glimcher Realty Trust, Lehman Bros., PepsiCo, Constellation Brands, Golden West Financial, ABN-AMRO, Johnson Controls, Countrywide Financial, Tootsie Roll Industries, Colgate-Palmolive, Omnicom, Exxon-Mobil, Chevron-Texaco, Royal Dutch Shell, Wrigley, Gucci, Brunswick Corp, Polaris, Microsoft, Sysco, Anheuser-Busch, Wal-Mart, Northrop-Grumman, 3M, Caterpillar, AIG, Proctor & Gamble, and IBM.

GROWTH: strong continuing growth potential

Panera, Honda, Johnson and Johnson, Amgen, Anglo-Gold Ltd, Alliance Gaming, International Gaming Technologies, Altria, Nokia, Adobe Systems, Anheuser-Busch, Krispy-Kreme, Goldman-Sachs, Lehman Bros., Eli Lilly, Pfizer, Novartis, Tiffany's, UPS, FedEx, Genentech, Centex Homebuilders, Yahoo, AOL, Yahoo/Japan, E*Trade Group, American Express, eBay, AIG, Harley-Davidson, Yum! Brands, Darden Restaurants, Limited Brands (Victoria's Secret) Wal-Mart, Starbucks, ABV (Companhia de Bebidas, 3rd largest brewer, Brazil), Nvidia, Pixar, ClearChannel Networks, Nextel, Allergan, Zebra Technologies, and Wal-Mart. Zebra Technologies just announced a 3:2 split: a good sign.

STRONG BUY: very strong share appreciation potential

| | |
|----------------------|--------------------------------------|
| CORNING | HARLEY-DAVIDSON |
| CATERPILLAR | KRISPY-KREME |
| PANERA | 3M |
| ALLERGAN | (Note how conservative this list is. |
| ANGLO-GOLD LTD. | What's making this economy go |
| LEHMAN BROS HOLDINGS | are staples, basics, 'small |
| PROCTOR & GAMBLE | luxuries' and 'old' congloms.) |
| ALTRIA | |

What We're WATCHING: Bank of NY, Ingersoll-Rand, Intel, Juniper Networks, JDSU, Toyota, Monsanto, Carnival, Eastman-Kodak, Canon, Toshiba, Sony, QualComm, General Dynamics, Zebra Technologies, Pulte, Lennar, KB Homes, Mariott, Medtronic, Gilead Sciences, Biogen, Taiwan Semi, Stryker, Legend Computer, Dell, Eastman-Kodak, Takara, and Marsh & MacClennan.

Copyright August 2003. Your results may vary. NO "guaranteed investment system" exists and NO ONE including US can guarantee that the results of an investment or a trade will be profitable. Any and all advice should be considered purely hypothetical. Readers of Market Witch agree to indemnify and hold harmless Market Witch, its officers, owners, partners, employees, heirs, and relatives for any losses liabilities or indebtedness generated by reading Market Witch. Permission is granted for normal and limited quotation provided full credit is given to Market Witch. Copying/Reproduction by any means is prohibited by federal copyright law 17USC et. Seq. Chip Elliott, marketwitch.biz and marketwitch21@aol.com.

