HD BROUS & CO., INC.'s
CROSSCURRENTS

U.S. STOCK MARKET OUTLOOK - FEBRUARY 28, 2000
DJIA 9862 - SPX 1333 - NASDAQ 4590

THE "NEW ECONOMY" RATIONALE IS BOGUS. SHIZOPHRENIC NATURE OF THE DOW AND NASDAQ IS CONCRETE PROOF OF THE BUBBLE THE FED CLAIMS IT CANNOT PROVE EXISTS. NASDAQ SHARE PRICES ARE UNSUSTAINABLE AND CANNOT BE JUSTIFIED BY ANY ANALYSIS; NASDAQ CRASH NOW LIKELY AT SOME POINT.

- NEXT ISSUE: MARCH 13th -

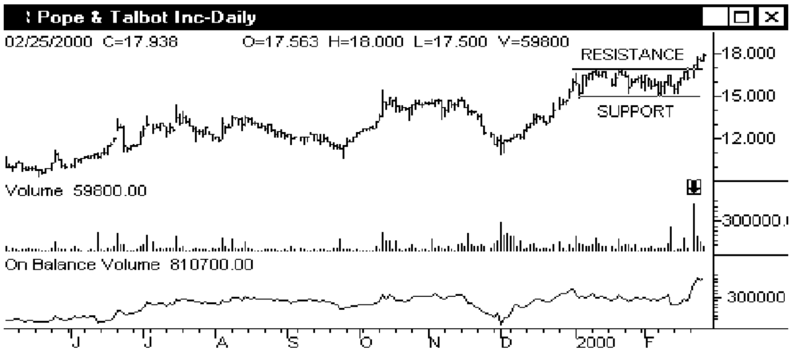
Schizophrenic!

In our last issue, we were clearly correct with our claim that "...we are certain that the Russell's move is a mirror of the other major indexes and it is likely that at least 75% of the gains have been generated by no more than 15-20 issues." As it turns out, Ned Davis Research did the leg-work and Rhonda Brammer exposed same in the February 21st issue of BARRON'S, showing a mere 13 issues accounted for more than 51% of the Russell 2000's gains since the last time the RUT was adjusted on June 30, 1999. The top 20 contributors accounted for 63% of the index gains, certainly close enough! In fact, from January 1st through February 11th, the top 20 accounted for 70% of the RUT's advance, a virtual dead-heat with our off-the-cuff analysis. As we have claimed many times in these pages, the indexes are out-and-out frauds and have terribly misled investors and speculators since the broad market peaked in April of 1998. Since that time, the indexes have repeatedly screamed "BULL MARKET!" while all the evidence surrounding the bold lie has stated precisely the opposite. Even more amazing was the revelation that of the 13 issues, only five had any earnings and their collective P/E was a truly stratospheric 416. In fact, the price-to-sales ratio for the entire group comes in at 102, in our view, very solid evidence of one of the most speculative phases in stock market history. Indeed, Ms. Brammer's article goes on to point out that despite the Russell's enormous gains, 56% of the issues in the index are down for the year. This is not a bull market!

How speculative has the U.S. stock market become? Thursday, February 17th, was arguably one of the strangest days in stock market history. Dow stalwarts such as Wal-mart, Home Depot, American Express and General Electric were clearly

breaking down, yet the most speculative issues such as Incyte Pharmaceutical, Brocade Communications, Millenium Pharmaceutical and Applied Materials were streaking for the sky and making new highs. In an ironic twist of fate, money was flowing out of the former group and incredibly, was wending its way into the relative "safety" and "haven" of gross speculations. The obvious (to us) rationale being that if you must have money in stocks at this point, the risks are so huge that you must go for broke with the biggest potential payoffs. Given the fact that recent history has proved that earnings are not necessary to provide the impetus for upside price movement, speculators have focused almost exclusively on stocks where there are no earnings at all! This is so incredible that it would be amusing if it were not so tragic. Get this. Since only revenues now count, it MUST be better to be in those stocks that lose money. Why? Consider the following; it is easier for developing tech company revenues to grow far more rapidly than most companies because they are losing money. The trick is the more money you are losing, the better deal your products are likely to be for your customers! This in turn, creates an environment where the floodgates are open and orders pour in. If your company is earning a profit, the prices of your product are obviously going to be higher than if your company was losing money, so revenues cannot climb at nearly the same pace. Despite the fact that revenues are being purchased via increasing losses in some cases, the notion of eventual profits are taken as a virtual guarantee. Incredibly, investors and professionals have now fully subscribed to the notion that revenues count more than earnings. This is easily the most convoluted and lunatic phase in stock market history.

Of course, there is always the argument that stocks are discounting the "new economy." (to page four) ➔

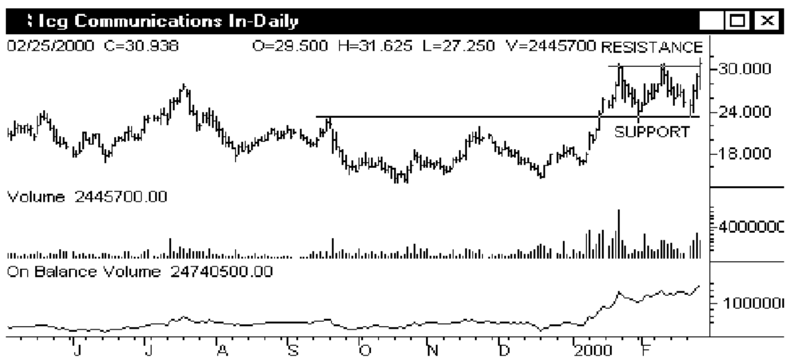


LONG - Pope & Talbot

POP (NYSE) $17-15/16

Technical Considerations:

When charts like this break out in a really tough environment, it's usually a sign of excellent underlying strength. POP has consolidated for the better part of two months and has finally popped, accompanied by a very nice spurt in volume. The fact that Friday's marke crumble had virtually no effect on the shares leads us t believe there could be a lot more upside in store. Stop at $16-1/4.

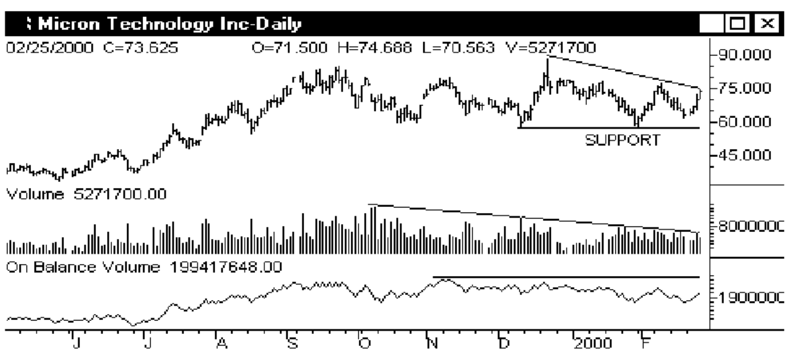


LONG - ICG Comm.

ICGX (Nasdaq) $30-15/16

Technical Considerations:

ICGX sports a similar pattern, but with the greatly added benefit of a very visible sponsorship (see expanded volume) since the shares moved up past old ressitance in early January. That ICGX was able to clos above the breakout point on Friday was a great sign. If this were one of the parabolic Nasdaq monsters, we would not be impressed. This is great action and could easily measure 6 points higher in short order.



SHORT - Micron Tech.

MU (Nasdaq) $73-5/8

Technical Considerations:

Believe it or not, we were actually thinking of shorting Cisco, which is beginning to display the first real signs c serious divergence. However, our courage faded and we are instead picking on MU, which seemingly has little to offer investors. Note the volume trend since October has been down. With the shares simply moving sideways, one would be excused for thinking that On Balance Volume would be sideways as well. Falling OBV and falling volume on sideways price actior spells heavy distribution to us. We're looking for a test of $58. Stop above $78.

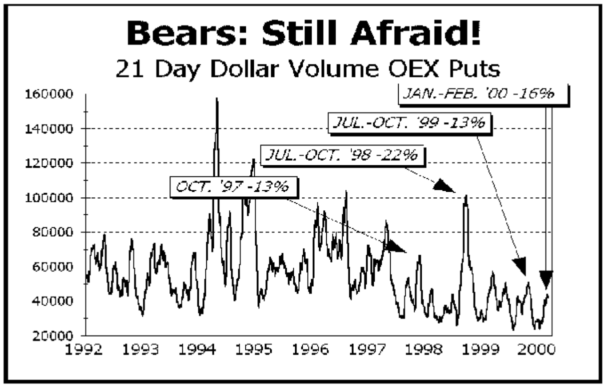
- The Two Weeks Ahead -

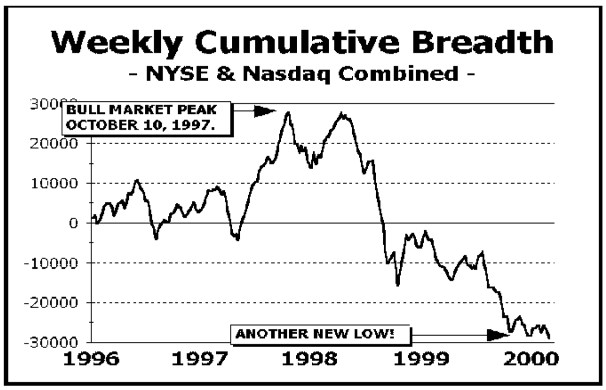
We believe we are very, very close to a significant reversal of Nasdaq's fortunes, possibly even a Nasdaq index crash. Parabolic moves of the kind the tech and biotech favorites have staged in recent months are typical of speculative blowoffs where sanity vanished from the arena. Moves like this spell D-A-N-G-E-R. Not too long ago, at least the S&P 500 and the DJIA were able to modestly join in the fun. However, in recent weeks, it has become frighteningly clear that tech and biotech support now comes solely from the tanking of the S&P 500 and DJIA. Less than 25% of these issues are now above their 200-day moving average. There will soon be no place for the favored few to draw support from and a dramatic and sudden reversal is inevitable. An intermediate-term end to the rout requires a genuine phase of capitulation and a collapse of confidence in the Nasdaq index. We are nowhere near the former and have yet to commence the latter. The odds are beginning to favor a short term turn or consolidation for the larger issues early this week, and lasting as long as two weeks. **At any point along the way, the downside may take control**. Resistance: 3% to 5% higher. Our targets for the year remain under 8000 for the Dow and under 3000 for Nasdaq, possibly as soon as mid-April. - *AMN*

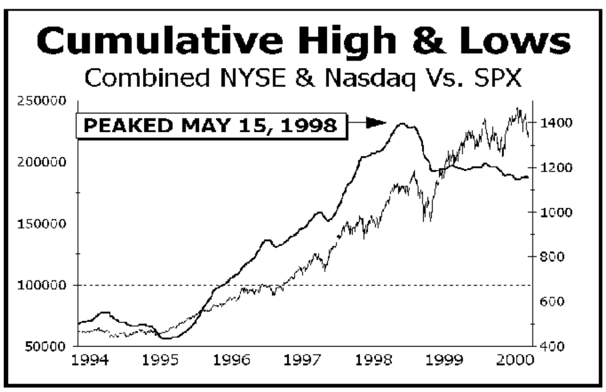
Recent Picks

En fuego! We have been on fire recently and only hope we can stay lucky in this very tough environment. Longs (stops): SSTI-52-1/4, PT--13-1/4, SEM-15, have all already traded up 20%. We're closing out GBT, up a juicy 52% since our January 10th selection. Shorts (stops): RYAAY--66+, BK-35-1/2, AMZN-72, MSFT-100-1/8, AMT-D-17-7/8, EGRP-23-3/4. This group has been averaging 16% in the profit column. We closed out DCLK at the specified target of $87, a 22% winner in just days. Remain short and maintain stops. For those issues for which a target has not been stated, use your own judgment. Unfortunately, we cannot update on the fly.

NEXT ISSUE - MARCH 13th







Bears are still afraid of their own shadow and even the prospects of price correction cannot attract them from their hibernation. It will take a far larger downside to bring out the cynics and end the selling. We expect a spike at least as high as the spike in the fall of 1998 at some point.

The best proof of the bear market for U.S. stocks is our next two charts. Our combined cumulative high/low chart still clearly shows a bear market in place. By definition, a bull market is comprised of new highs for individual stocks, completely lacking in this view. Weekly cumulative breadth registered another new low on Friday. Only 22& of the NYSE is above its 200-day moving average; the numbers for the OEX and DJIA are worse - 20% above.

Given the incredible $3.3 trillion increase in stock market capitalization last year, one would be excused for thinking that the accompanying wealth effect would afford LESS reason for home owners to borrow. But a recent Freddie Mac survey found home owners borrowing much more. Why? It is apparent that the focus for many homeowners is the U.S. stock market. Between home equity lines of $600 billion, second mortgages and record margin debt of $243 billion, we believe U.S. investors, speculators and day traders are leveraged as highly as they have been since 1929. Is it possible that less of the home equity exposure of $600 billion is directed into stocks than we might think? Given the stance of professionals in managing the mutual funds of the nation with the lowest levels of cash in 27 years, it is obvious that stocks are the only consideration for the vast majority of investors - cash is simply not an option. And if cash is not an option, then certainly margin or otherwise borrowed money is attractive. Twenty-seven years ago, when cash reserves were nominally lower than now, a two-year bear market began almost immediately, lopping 45% off the S&P 500 and a mind-numbing 85% off the "nifty-fifty," a group that equates fairly with the momentum stocks in favor today. In a manic environment, a fund with less cash reserves is likely to rise faster than a fund with large cash reserves, but the process works even more effectively in reverse. The prospect of margin calls accelerating the downside and mutual funds having to raise tremendous amounts of cash to meet calls for redemptions is real. Given the now widespread use of electronic and internet trading, we see the potential for an epic disaster if these systems do not work as advertised. Under the stress of a 4-5 billion share day (or worse) for Nasdaq, the odds for a breakdown and an accompanying rise in tension could bring about a crash. Nasdaq should trade under 3000 at some point this year.

☑☑☑☑☑

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FOR COVERAGE OF OUR COMMENTARY

Our web-based charts and commentary were updated on February 9th.

"Pictures of a Stock Market Mania"

http://www.cross-currents.net/charts.htm

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- (continued from page one) -

Proof that the new economy argument is totally bogus is quite visible in the action of biotech stocks in recent months. Millenium Pharmaceutical from 60 to 316 since the October '99 lows. Incyte Pharmaceutical from 18 to 278 in the same span. There are of course, dozens of other not quite as recognizable names but equally impressive performers. The group, as measured by the Nasdaq Biotech Index (IXBT) has surged from 563 to 1473, a 162% gain and has actually surpassed the gains in both the DOT and IIX, the two widely followed internet indexes! So much for the new economy, based on productivity gains drawn from the rapid growth of the internet. The Emperor is not internet, it is Biotech and is quite obviously naked of productivity gains and in most cases is also stripped of the rapid revenue growth evidenced by the internet favorites that have been hyped to 100's times sales. It's not about the internet and it's not about the new economy. It is all about a mania for the biggest possible bang for the buck in the shortest possible span of time. It is all about greed. It is all about ignorance and stupidity and the blind faith that the mania will endure. It will not.

Using the market data statistics at the NASD site, one of our eager colleagues backed out the Nasdaq 100 from the overall Nasdaq, and found that the P/E on the remaining companies at the end of January was 288. At the top tick, the P/E was likely around 325. The remainder of Nasdaq had a market cap of $2.1 trillion, supported by a combined net income of a mere $7.3 billion. Our colleague asks, "What if we borrow $2.1 trillion to buy all these companies? The interest rate would clearly be much higher than 10%, given the riskiness of the companies. But at 10%, we would have to pay $210 billion in interest per year to get a mere $7.3 billion in net income. This is clearly absurd--no one would ever do this." Of course, the same analysis easily applies to the NDX, where it would currently cost at least $3.015 trillion to buy all 100 companies in the index - arguably, the best and brightest potential Nasdaq has to offer. Over the course of the first year, our interest costs at a more favorable 8% rate on the purchase price would be nearly nine times last year's earnings! The tough question: how can stocks be worth the risks at these prices? The ridiculously easy answer: they absolutely cannot!

As our chart illustrates, just the trades on Nasdaq are responsible for Dollar Trading Volume of 116% of GDP. The pre-mania average has been eclipsed more than 13-fold. Bear in mind that survival for professionals in this mania has equated to a requirement to beat the competition. Thus, last month, cash reserves of mutual funds fell to a 27-year low of 4.3%. The only acceptable stance nowadays is full investment. In its zeal, the fund industry has created an environment where flexibility in preparation for a cyclical or secular downturn in stock prices is impossible. As seen in our second chart, fund action is focused heavily on Nasdaq. It is also quite clear that a fully invested fund will by necessity fall more rapidly than a fund with hefty cash reserves. In the past, history has shown that manic environments based on greed are unwound by manic environments of the opposite kind, based on fear and the need for capital preservation. The biggest threat to stocks today is a rapid decline that catalyzes fear on a large scale. Can this happen? We believe it can. After a brief look at two of the most respected funds in the nation, we are convinced that the fund industry has unleashed a monster with the potential to ravage America's savings. The Fidelity Magellan fund has now topped $100 billion in assets, only 3.3% of which was in cash at the end of 1999. The top ten holdings at that time included Microsoft, General Electric, Home Depot, Cisco Systems, Citigroup, Exxon Mobil, Wal-Mart, Lucent, Texas Instruments and Tyco; on the surface, a conservative group - until you realize that the average P/E works out to 58! If this is the multiple of what passes for conservative investment nowadays, God help us. Then we turned to one of the hottest funds in the country, the Pimco Innovation Fund, rated 5 stars by Morningstar. Innovation had "only" $3.5 billion in assets at the end of 1999, 6% of which was in cash and the top ten holdings were Qualcomm, Oracle, I2 Technologies, Doubleclick, Ariba, Cisco, Gemstar Int'l., Vignette, Siebel Systems and Qlogic. We wouldn't be surprised if you hadn't heard of one or two. Only six of the ten have any earnings at all and the rest recently traded at a collective 364 P/E. Can the mania last long enough for the dreams of Pimco Innovation's investors to work out? Clearly, the P/E's (infinite and otherwise) of this group indicate they trade based on assumptions of how earnings will look a decade away. If so, then the game has really changed and there really is a new paradigm where current earnings have nothing to do with what a company is presently worth. However, the theory that present values can be established via diminishing losses and the projection of profits that are not assured seems very much at odds with basic economics. If the future really is that bright, then we should expect even newer technologies to arise and compete, forcing the "old" new technologies into obsolescence before their projected futures are ever realized! We live in interesting times. ☑☑☑☑☑