

# Don't get trapped by Wall Street's trio of myths!

Wall Street would like nothing more than to convince investors that all is well and good in the markets. After all, why wouldn't they? Wall Street has been duping investors for years -- and is no going to stop anytime soon.

That's why it's super-important to focus on what's REALLY happening to the fundamentals of the US economy -- and ignore the MYTHS that are getting investors' attention right now.

## **Myth #1: Business investment is on the rebound**

If you lend an ear to the pundits on Wall Street, you'd think that business investment was staging a massive comeback. But according to the latest data from the Commerce department, nothing could be further from the truth.

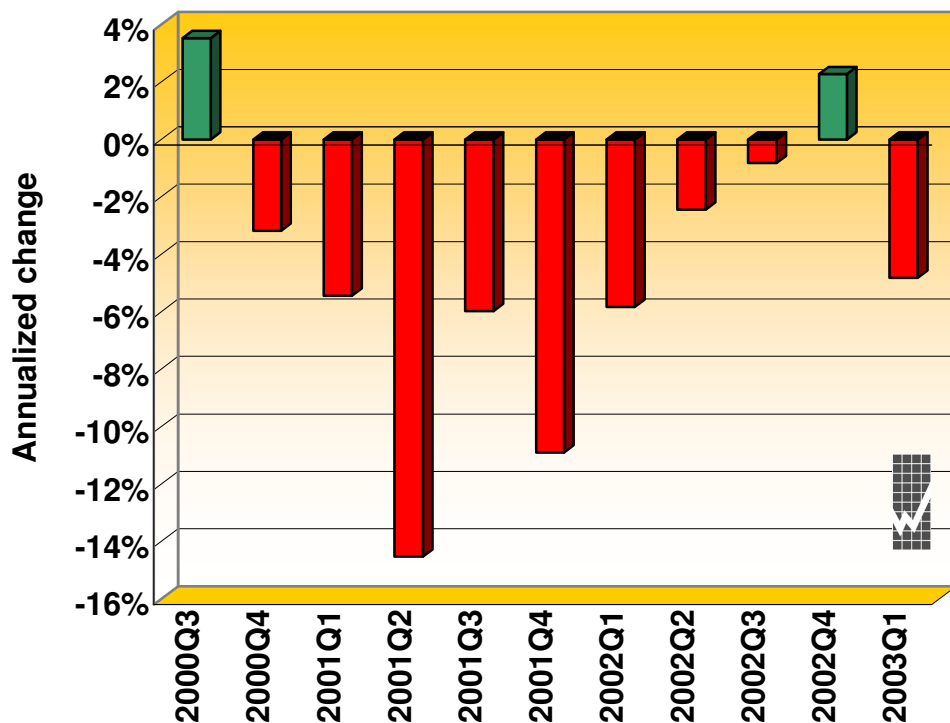
Business investment -- which includes business structures, software, and industrial equipment -- plunged by \$14.5 billion in the first quarter. That's a massive 4.8% annualized plunge. Terrible!

And the plunge wasn't isolated: No, it was wide-spread, across a variety of investment classes, demonstrating HANDS DOWN just how sick business investment really is.

For example, investment in non-residential buildings, software, industrial equipment, and transportation equipment all took hits. No matter how you look at it, that doesn't sound like a recovery to me!

And it gets worse. Just take a look at the trend in business investment...

### Business investment is terrible!



As you can see from this graph, business investment fell at an annual rate of 4.8% during the first quarter. And except for a rise during the last quarter of 2002, that's been the trend for over two years.

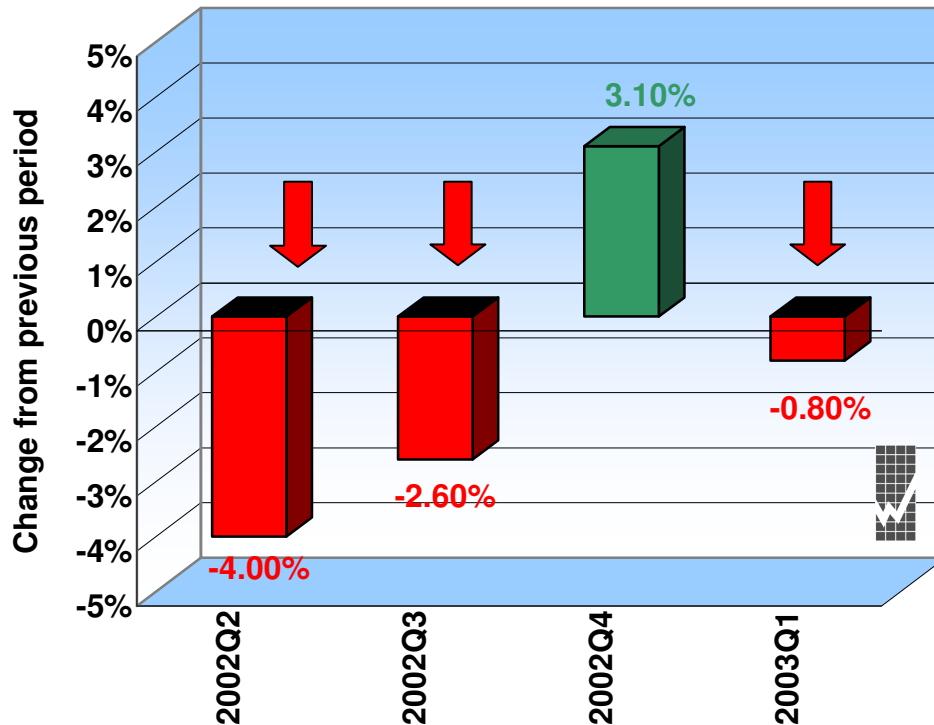
If the economy was in tip-top shape, businesses would be pouring money INTO business structures, software, and industrial equipment, not pulling it out!

### Myth #2: Corporate profits are rising

Wall Street would like nothing better than to convince you that corporate profits are going gang-busters. The problem is the latest data from the Commerce department shows that corporate profits are heading down, not up.

In fact, corporate profits tumbled 0.8% in the first quarter -- but that's nothing new. The trend over the last year is not good. Take a look...

## Corporate profits are still lousy!



As this graph clearly shows, corporate profits are not only NOT rising, they're falling -- and have been doing so for three of the last four months. If businesses were doing well these numbers would be going UP not down.

I like using this data from the Commerce department because it's less prone to insiders' accounting shenanigans. Plus, the numbers are net of taxes -- and include adjustments for inventory valuation and capital consumption. That means they're a bottom line number.

The outlook? Downright dismal. That's because businesses are getting squeezed from both the cost side AND the income side...

For example, on the cost side, businesses are cutting like mad, especially labor costs, in a desperate attempt to boost the bottom line. That's why unemployment is now at record levels -- and unemployment claims continue to skyrocket, week after week after week.

On the income side, it's just as bad. In fact, demand is so lousy, businesses can't raise prices at all. For example, wholesalers' prices have fallen at an annual rate of NEGATIVE

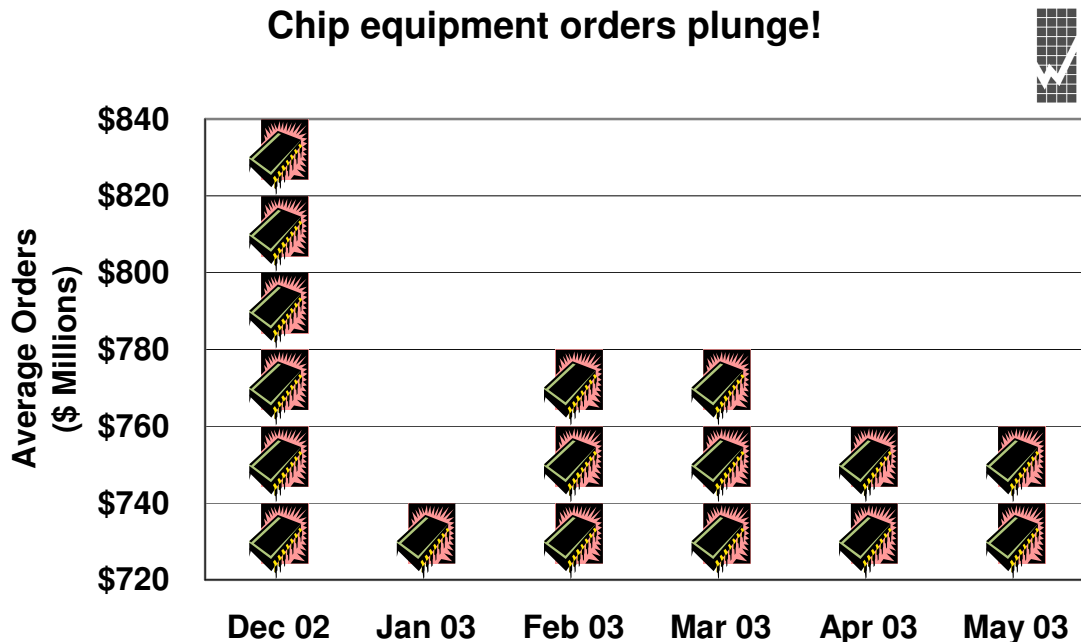
3.04% over the past three months. That means sales are going now where.

Bottom line: Corporate profits are getting hammered and the outlook looks even worse.

### Myth #3: Technology's boom is right around the corner!

Listening to the cheerleaders on Wall Street, you'd think the next big tech recovery was right around the corner. The fact is nothing could be further from the truth -- and the latest report from a key technology trade group confirms this, hands down.

Orders for semiconductor equipment makers fell 0.8% in May, the second consecutive monthly decline, according to SEMI, Semiconductor Equipment and Materials International. And the fall in May is nothing new - in fact, over the past six months, orders for semiconductor equipment have been on a fast slide...



And the longer trends are just as bad. For example, orders for chip making equipment are down a whopping 32% from a year ago.

The SEMI report is a great report to follow because it gives the inside look at the real healthy of technology. Why is it so telling? Because semiconductors are the heart of technology, found in practically everything from personal computers to cars

to cell phones. So, when orders for the machines that make those chips fall like they are, it means technology is in rotten shape.

Think about it. If technology were on the upswing, semiconductor makers would be falling over one another buying more chip equipment. The fact is things are so lousy, so they're buying less equipment not more. No matter how you look at it, that's no tech recovery.

## Portfolio update

In other portfolio news, your June positions will expire this week without value, including your **Nasdaq-100 tracking stock puts, Mini-Nasdaq 100 Index puts, Dow Jones Industrial Average puts, Dow Diamonds Trust puts**. I hate these losses as much as you, but they come with the territory -- so hang in there.

You have some other puts that are being hammered, but this market could turn quickly, so hold all positions!

Let's ride this rally as long as it lasts, then buy more puts when it finally crumbles! Don't forget, this rally is built on nothing but hot-air: The fundamentals of the economy are just awful. And that means that when the sell-off comes, it will be brutal.

I'll be in touch soon with more updates, so stay alert!

Best wishes,

Larry

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