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## Nasdaq Shows Surprising Resiliency

John Dobosz, 01.28.03, 3:15 PM ET

Since hitting highs for the year on Jan. 14, all of the major U.S. equity indexes have fallen into retreat. Interestingly, large blue-chip stocks--usually considered better insulated from volatility than smaller, more speculative issues--have suffered the worst declines, especially since the beginning of the year.

Through Monday's close, both the Dow Jones Industrial Average and the Nasdaq Composite had slipped more than 9% from their mid-month highs--but since Jan. 1, the Nasdaq is virtually unchanged, while the Dow has lost 4.2%. Nasdaq's resiliency in the face of a fearful market gives many advisers reason for optimism, though they say war-related worries look to bedevil stocks until Saddam's fate is sealed.

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"This is obviously a very news-driven environment," says **Ivan Martchev**, editor of [Wall Street Winners](#), a top-performing letter according to The Hulbert Financial Digest. "I wouldn't be pressing hard in either direction now," adds Martchev, noting the divergence between the Nasdaq and the blue-chips in terms of volatility. The S&P 100 Volatility Index has shot up nearly 50% in the past two weeks, while the Nasdaq 100 Volatility Index is up just 11%, suggesting high anxiety in the broader market and relative bullishness in the Nasdaq.

Martchev says contrarian judgement tells him that growing uncertainty will put further pressure on stocks in the short term. For the last two weeks, he's been short **KLA Tencor** (nasdaq: [KLAC](#) - [news](#) - [people](#) ), **Applied Materials** (nasdaq: [AMAT](#) - [news](#) - [people](#) ) and **Best Buy** (nyse: [BBY](#) - [news](#) - [people](#) ), and bought puts on **Semiconductor HOLDRs**. Positive news regarding Iraq or the economy might spark a nice rally as Martchev and others cover their short positions. To capitalize on the declining dollar and the strength of gold, Martchev also bought March call options on **Newmont Mining** (nyse: [NEM](#) - [news](#) - [people](#) ) with a \$30 strike price.

**Gerald Appel** of [Systems and Forecasts](#) is trying to reconcile short-term weakness and signs of longer-term reasons for bullishness. Appel points out that the Nasdaq's strength relative to the Dow has been a bullish signal for the entire stock market since Nasdaq's inception in 1971. "Whoever is doing the buying here is putting more money into emerging companies, and that buying is being done by long-term money that's not scared off by the uncertainty," says Appel. He also cites resiliency in the high-yield bond market as a sign that investors believe the economy is stable, if not actually improving.

**Martin Yokosawa**, portfolio manager at **Oberweis Capital Management** and an editor of the [Oberweis Report](#), is familiar with putting money to work for the long term in emerging companies. Oberweis Capital screens for profitable small-cap companies growing at 30% per year or better with healthy balance sheets.

Currently, Yokosawa and Oberweis are buying generic-drug maker **Able Labs** (nasdaq: [ABRX](#) - [news](#) - [people](#) ), supercomputer company **Cray** (nasdaq: [CRAY](#) - [news](#) - [people](#) ), medical testing company **Biosite** (nasdaq: [BSTE](#) - [news](#) - [people](#) ) and remote software management firm **ON Technology** (nasdaq: [ONTC](#) - [news](#) - [people](#) ). On Monday, Yokosawa was especially excited about integrated-circuit designer **Artisan Components** (nasdaq: [ARTI](#) - [news](#) - [people](#) ), which beat Wall Street estimates for profit and recorded year-over-year quarterly sales growth of 85%.

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