Scott Moritz's
The Tech Edge
Finding Profits After the Tech Boom
TheStreet.com

Issue 137: Tuesday, Nov. 23, 2004

In This Issue

Scott Moritz’s Tech Focus: SpatiaLight Sees an HDTV Turning Point

The high-definition future remains but a gleam in **SpatiaLight's** (HDTV:Nasdaq) eye.

Like so many challengers in the silicon sphere, SpatiaLight has staked its claim on making higher-performing chips that also cut the cost, power consumption and weight of finished products. And for a few years, it looked like the Novato, Calif., TV chipmaker was going to be in the right place to cash in on the high-definition TV craze sweeping the consumer electronics market.

But after a series of dashed supply deals with TV makers and the recent decision by chip giant **Intel** (INTC:Nasdaq) to abandon the market, SpatiaLight's prospects look dimmer than ever -- though you would hardly know it to look at the stock. At $7.50 Tuesday, SpatiaLight shares are just off a two-year high as investors speculate on the HDTV names.

SpatiaLight makes liquid crystal on silicon, or LCoS, chips for rear-projection TVs, computer monitors and video projectors. LCoS technology uses three chips, one each for the colors red, blue and green. The TV images are created as light is projected through the liquid crystal layer mounted on the chips.

Though not as thin as the so-called flat-panel liquid crystal display and plasma TVs, LCoS sets are typically much less than 20 inches deep, and narrower than conventional cathode ray tube, or CRT, models. The few LCoS TVs that have made it to the market scored well in terms of picture quality and contrast ratios, according to reviewers.

The problem for SpatiaLight is the flat-panel business has taken off, and prices on LCD and plasma TVs have been dropping. Meanwhile, in the rear-projection HDTV race, SpatiaLight seems to be outgunned by **Texas Instruments** (TXN:NYSE). TI has a competing technology called digital light processing, or DLP, which uses thousands of minimirrors to reflect projected light into a sharp screen image.

While TI's DLP-based TVs have gained wider acceptance, the LCoS camp has yet to deliver in enough volume to even test the market. SpatiaLight will say success is just around the corner: The company signed a deal with **LG Electronics** in June to supply 21,000 chipsets starting early next year.

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To help fill the order, SpatiaLight is building a $10 million, 500,000-square-foot manufacturing facility in Korea. This is a big financial gamble for an outfit that has lost $8.9 million on $1 million in sales over the past year.

While the LG Electronics deal looks promising, a glance at SpatiaLight's track record shows a string of similarly huge supply opportunities that failed to take off as expected.

Last year, SpatiaLight signed an agreement to deliver 14,100 chipsets to **Skyworth Display**. But only 100 were ever shipped, as the Chinese electronics giant changed its rear-projection TV plans, according to trade publication *Warren's Consumer Electronics Daily*.

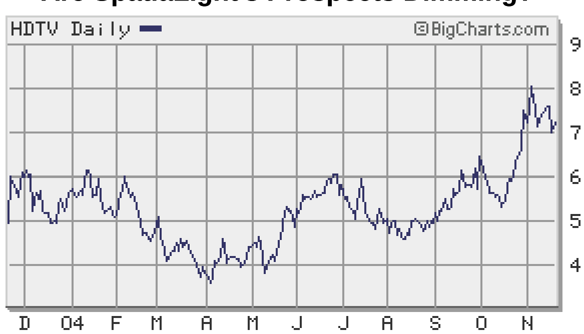
Another discouraging sign is the number of TV makers that have abandoned the LCoS market in recent years. **Thomson**, maker of RCA TVs, used LCoS microdisplays from SpatiaLight rival **Three-Five Systems** (TFS:NYSE) before it discontinued the model. Last month yet another TV giant, **Philips Electronics** (PHG:NYSE), killed its LCoS efforts.

And after boldly announcing in January that it would capture a piece of the growing HDTV market by making LCoS chips, Intel last month pulled out completely.

Sure, fewer suppliers might mean bigger opportunities. But it could also mean LCoS is falling out of favor before it has a chance to prove itself.

Until LCoS chipmakers can demonstrate the promised performance and help TV makers sell competitively priced HD sets, the SpatiaLight picture looks awfully blurry.

Are SpatiaLight's Prospects Dimming?



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Jordan Kahn's Model Portfolio: Market Starting to Work Off Overbought Condition

The **Nasdaq** finally suffered a decline last week, although you have to squint to see it, as the index fell by less than half of a percent. And that has a lot of investors wondering, 'Is that it?' Given how far the market has climbed over the last few weeks, many feared a selloff would be more severe, and it still could be, so let's look at the indicators for any clues.

Fundamentals: The benign phase, as I have called it, was in full force last week. A terrible earnings report by **Applied Materials** (AMAT:Nasdaq) didn't even hurt the stock of the bellwether technology company as it guided for orders to be down 35%, far more than the 15% to 20% decline investors were expecting. Nevertheless, the stock dipped briefly the next day, but closed in positive territory. That shows how many investors are trying to call the bottom for the stocks in this sector.

Network Appliance (NTAP:Nasdaq) reported a solid quarter, beating earnings expectations and raising guidance for next quarter. Despite the stock already being up 50% from its August lows, the news caused the stock to gap another 18% higher the next day. The stock is now at a three-and-a-half-year high.

Hewlett-Packard (HPQ:NYSE) also reported a good quarter, beating EPS estimates by 4 cents (41 cents vs. 37 cents) and revenue estimates by $300 million ($21.4 billion vs. $21.1 billion). CEO Carly Fiorina said she sees an improving enterprise environment, which pleased investors. The stock gapped as much as 8% higher the next day, but closed with a 3% gain. Not too bad.

If it weren't for the cautious outlooks from semiconductor companies, I would likely raise my fundamental rating. If we get more positive outlooks when companies give their midquarter updates in early December, I will likely do so then.
Outlook: neutral (+0)

Technicals: The technical backdrop is still positive and is getting a much-needed breather. The market was extremely overbought, and is starting the much-needed process of working off that overbought condition. A look at the Nasdaq chart below shows both the RSI indicator as well as the stochastics coming off overbought levels. This should lead to some normal consolidation, which would be a precursor to another shot at a new yearly high.

The Nasdaq logged one accumulation day and one distribution day last week. That marks the first real distribution day (with a decline of greater than 1%) in two months. I am not too worried about just one distribution day, as they are needed to work off some of the excess. I would only be worried if two or three more pop up over the next couple weeks.

The Nasdaq found support on Monday around the 2055 level, the same level that marked the June high. Near-term resistance lies overhead around last week's high at 2112, and after that we are looking at the January highs around 2150 (if and when). The 50-day moving average has also crossed the 200-day on the upside, which technicians like to call a "golden cross."
Outlook: bullish (+1)

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Sentiment: The sentiment picture continues to reflect more bullishness, but you would expect that as the market moves higher. In the investment adviser surveys, the spread on the *Investor's Intelligence* survey widened further to +36 (58% bulls, 22% bears), and bulls on *Market Vane* stayed at 70%, the highs for the year. Also, the spread on the AAII survey widened to +42 (64% bulls, 22% bears). If these surveys stay at these levels, or even start to widen further, it will signal the market is that much closer to a near-term top. But it's not there yet.

In options land, the put/call ratio has given a series of low readings, pushing the 21-day average all the way down to 0.58. That's a long way from the 0.76 reading just four weeks ago, but this indicator reached 0.51 back in January, so I'm willing to give it some more room. The Specialist Short Ratio has also risen lately (to 0.29), indicating less shorting by the public. This indicator reached 0.35 in January, so I'm keeping a close eye on it.
Outlook: neutral (+0)

Trading Points: This is a holiday-shortened week that is usually pretty bullish for the market. Trading volumes will likely be light, as many investors take time off for Thanksgiving. Happy Turkey Day to everyone.

Overall tech rating: +1 (slightly bullish)

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Watch List: Update

Mobile TeleSystems
(MBT:NYSE ADR): ***long***

Trading Points: MBT reported earnings today (Tuesday). Both revenue and profits came in ahead of expectations, and operating margins hit a record 58.4%. Despite posting solid growth, the stock sold off on the news and comments from CEO Vassily Sidorov that operating margins would likely ease from current levels as penetration rates in Russia slow next year.

I will give the stock a little wiggle room in here to find support. But if it hits our 15% stop-loss, I will alert subscribers that I am closing the position.

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The Tech Edge Watch List

Company	Bias	Date Added	Closing Price Day Added	Current Price
Infosys (INFY:Nasdaq)	*Long*	8/17/2004	$46.46	$64.40
Juniper (JNPR:Nasdaq)	*Long*	5/25/2004	$21.62	$28.47
Mobile TeleSystems (MBT:NYSE ADR)	*Long*	11/9/2004	$154.09	$134.99

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The TECH EDGE Model Portfolio

Ticker*	Trade Date**	Position Type	Current Price	Cost Basis	Net Gain $	Return	NASDAQ at Trade Date	NASDAQ Return
Broadcom BRCM	03/02/2004	Long	$ 30.93	$ 42.01	$ -11.08	-26.37%	$ 2,056.38	1.36%
Epicor Software EPIC	01/07/2004	Long	$ 15.40	$ 14.01	$ 1.39	9.92%	$ 2,056.75	1.34%
Fisher Scientific FSH	06/15/2004	Long	$ 55.27	$ 57.40	$ -2.13	-3.71%	$ 1,982.41	5.14%
Garmin GRMN	09/16/2003	Long	$ 56.87	$ 44.39	$ 12.48	28.11%	$ 1,848.41	12.76%
JDS Uniphase JDSU	06/29/2004	Long	$ 3.13	$ 3.83	$ -0.70	-18.28%	$ 2,017.35	3.32%
PMC-Sierra PMCS	01/20/2004	Long	$ 11.42	$ 24.51	$ -13.09	-53.41%	$ 2,149.03	-3.01%
UTStarcom UTSI	09/30/2003	Long	$ 17.91	$ 31.80	$ -13.89	-43.68%	$ 1,812.81	14.98%
UTStarcom UTSI	07/15/2003	Long	$ 17.91	$ 41.23	$ -23.32	-56.56%	$ 1,769.95	17.76%

Portfolio Performance

Total Average Return	-1.54%	Performance results listed here reflect values of stocks as of the close of the most recently completed trading day, and do NOT take into account dividends paid, interest earned or commissions. Results are updated overnight and posted prior to the market open the following business day. The 2004 YTD Return figures reflect changes since the beginning of 2004. The Total Average Return figures reflect changes since inception on 10/8/2002.
2004 YTD Return	-15.48%	

Nasdaq Composite Performance

	Portfolio Inception	Open Price	Current Price	% Gain/Loss Since Portfolio Inception	2004 YTD Return
Nasdaq Composite (COMP)	10/8/2002	$ 1,129.21	$ 2,084.28	84.58%	3.64%

The Tech Edge model portfolio is a model portfolio of technology companies maintained by Jordan Kahn, CFA. Mr. Kahn is a Portfolio Manager at Berger Fund Advisors, a registered investment advisor that serves as advisor to a hedge fund. The performance represented here is for informational purposes only and should not be construed as a recommendation to buy any security. Holdings of the fund advised by Berger Fund Advisors are not identical to the model portfolio shown here. Please keep in mind that this is a model portfolio and does not necessarily account for the different risk tolerances, investment objectives, and other criteria used by each individual investor when making an investment decision. You are encouraged to conduct your own research and due diligence, and to seek the advice of a qualified securities professional, before you make any investment. Past results are not necessarily indicative of future performance.

**At the time of publication, Berger Fund Advisors, LLC was long GOOG, INFY.

To see Jordan's full portfolio, including closed positions, visit http://www.thestreet.com/k/tech/portfoliotrade.html.

Contact **Information**

Customer Service:
Please email members@thestreet.com, or call 1-800-562-9571 Mon. – Fri. 8 a.m. to 6 p.m. ET

Reader Feedback and Questions:
Please email Scott directly at scott.moritz@thestreet.com, and Jordan directly at jordan.kahn@thestreet.com. Again, please direct all account-related inquiries to customer service.

About **Scott Moritz**

Scott is a senior reporter at *TheStreet.com*. Before joining *TheStreet.com* in July 1999, Moritz was the telecommunications reporter at *The Record* of Bergen County, N.J., for three years. Prior to that, he worked as a municipal reporter for the same publication.

Moritz received a bachelor's degree in political theory from the University of Massachusetts - Amherst and a master's degree in journalism from New York University.

About **Jordan Kahn**

Jordan Kahn, CFA, is a portfolio manager with Berger & Associates, a Beverly Hills, Calif., money manager. He is the portfolio manager for the firm's separate account portfolios and also a long/short equity fund. Before joining Berger & Associates, Kahn ran a technology-focused hedge fund at Kahn Asset Management; served as assistant director of equities research at Feldman Securities Group in Chicago, where he was also the firm's Model Portfolio manager; and was an investment analyst at the Chicago Trust Company. He holds a master's degree in Financial Markets and Trading from the Stuart School of Business at the Illinois Institute of Technology, is a Chartered Financial Analyst and holds a bachelor's degree in Economics and Finance from the University of Colorado.

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