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MARKET CALLS

Uncle Sam Wants You… To Make Your Quarter!

Friday, October 19, 2001

Donald Luskin

Impressed by **Microsoft** and all the other big tech companies that are making -- or even beating -- their quarters? Don't be.

I have this fantasy -- well, it's just slightly more than that -- that the CEO' of the top public companies in the US all got a call from **George W. Bush** at some point over the last couple weeks.

"**Bill** -- you don't mind if I call you that, do you **Mr. Gates**? -- this is your President.

"As you know, after the cowardly attacks on the American way of life that took place so tragically on September 11, the most important thing that great businessmen like you can do to restore the confidence of our citizens is to *make your quarter!*

"That's right, Bill. You remember how after September 11 I said that those good old boys at the SEC wouldn't make a big deal out of it if you wanted to buy back some of your stock? Well, it's kind of like that all over again. Just make your quarter. We won't ask a lot of questions. You know what I mean, right Bill? That's right... you understand.

"The antitrust suit? Well, hey, can we talk about that later? I have so many calls to make. And I know the American people can count on you to do the right thing..."

So after the bell last night Microsoft became yet another company to defy the odds and beat its quarter -- *this* quarter that was supposed to be impossible to beat.

But did it really? Did **Sun Microsystems** really? Will **Cisco Systems** really, when they have to stop hinting and leaking and put their cards on the table?

With Microsoft the definition of "beat" is all about whether you include or exclude their $1.24 billion or 20 cents/share write-off of bad investments in telecommunications companies. Maybe one analyst did it one way, another one did it another way -- and who knows what the company included in their guidance last time around? Don't ask, don't tell.

Once again, it's an issue of disentangling "reported" and "operating" earnings -- just as I talked about on Tuesday, when I tweaked **Floyd Norris** at the *New York Times* for imagining that the S&P 500's price/earnings ratio is at all-time highs because he chooses to use the most stringent possible definition of earnings.

But in the case of Microsoft we're not talking about writing off goodwill from acquisitions gone bad, as was the case with **JDS Uniphase** or **Nortel**. No, we're talking about using retained earnings to take stakes in other companies, public and private -- and taking losses when those investments go bad. Is that any different than taking a loss on sales or inventories? Are these frequently made investments "extraordinary," and are the string of losses from them "non-recurring?" I don't think so -- not when making such investments is a systematic way of life for tech gorillas like Microsoft, Cisco, **Intel**, and all the rest.

And when Cisco reports, how much of their quarter is going to come out of their backlog? As **Chris Stix** at **Morgan Stanley** has pointed out, that's about the only way they can possibly make this quarter, yet we'll never know -- because they only report backlogs once a year.

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Well, for Microsoft, on Thursday evening, the Street was buying the act. It was trading a little higher overnight. Pass the Lord and praise the ammunition. But now in the cold light of dawn patriotism gives way to realism.

Now, Mr. President, about that antitrust suit...