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Testing Tech's Strength

John Dobosz, 03.20.03, 10:20 AM ET

The winds of war have filled the sails of stocks since it became clear that, in the matter of disarming **Saddam Hussein**, diplomacy was dead. Since hitting an intraday low of 1,253.22 last Wednesday, the Nasdaq composite has gained almost 12% in less than a week. The Dow and S&P 500 have both rallied 10% in the same amount of time. The rapid and sizable advances in the averages naturally makes advisers suspicious that overly optimistic buying has gotten ahead of itself, but some of the top technicians are still picking up strong buy signals in tech stocks, while those who watch fundamentals are feeling bullish too.

Michael Burke, veteran co-editor of [Investors Intelligence](#), doubts the long-term sustainability of this rally, but his technical work gives more ammunition to the bulls for the near term. Two narrow industry groups that generated new buy signals this week, according to Burke, are desktop-computer software and Internet e-commerce, and Burke's system identifies several individual stocks as buys. For example, in programmable logic devices, **Xilinx** (nasdaq: [XLNX](#) - [news](#) - [people](#)) and **Analog Devices** (nyse: [ADI](#) - [news](#) - [people](#)) are both buys, with respective price targets of \$47 and \$41. Burke also has a buy on **IBM** (nyse: [IBM](#) - [news](#) - [people](#)) with a target of \$98, as well as computer graphics company **Pinnacle Systems** (nasdaq: [PCLE](#) - [news](#) - [people](#)), a buy with a target of \$16.

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While momentum has propelled these shares higher, Burke expects some gyrations in the market to make for a bumpy ride. Don't be surprised, he says, if the markets head south again and test the lows of October. "Reactions to news can be sharp but brief," says Burke. "It would not surprise us to see a big swing back to the downside a few days into the conflict--as that was the direction of trading shown prior to this event."

Marvin Appel, co-editor of [Gerald Appel's Systems and Forecasts](#), also sees reason for caution after the huge advance--but he's still bullish. "The rally of the past four days could be a case of 'buy on the rumor, sell on the news,'" says Appel. "Stock purchases now should be made not with further quick gains in mind, but rather with a view towards an intermediate-term advance over the next several weeks." One bullish technical development that Appel likes: rising double bottoms in the S&P 500 and Nasdaq 100.

Appel points out that the rally has favored large-cap growth stocks and has also given a boost to high-yield corporate bonds. Two high-yield bond funds Appel is still holding: **Northeast Investors Trust** ([NTHEX](#)) and **Federated High-Yield Trust** ([FHYTX](#)).

Looking at fundamentals, **Randy Williams-Gurian** of Seattle-based [Tech Stock Insights](#) has become extremely bullish on **Qualcomm** (nasdaq: [QCOM](#) - [news](#) - [people](#)). Gurian points to the company's CDMA mobile-phone technology, which is making progress at building market share in Europe, where rival GSM technology is still dominant. **Nokia** (nyse: [NOK](#) - [news](#) - [people](#)) announced plans for two new phones this week that will be using CDMA.

Gurian also looks for technology spending in the United States to pick up later this year when a lot of uncertainty about the geopolitical situation will be cleared up. Besides being bullish on tech bellwethers like **Microsoft** (nasdaq: [MSFT](#) - [news](#) - [people](#)) and **Cisco Systems** (nasdaq: [CSCO](#) - [news](#) - [people](#)), Gurian also says to buy integrated circuit maker **Linear Technology** (nasdaq: [LLTC](#) - [news](#) - [people](#)) and publishing software company **Adobe** (nasdaq: [ADBE](#) - [news](#) - [people](#)).

"There are a whole lot of technology projects on the table right now," says Gurian. "But when the uncertainty is removed, I think that the return on investment (from technology upgrades) will look a whole lot better and companies are going to move forward with new spending."

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