YIN AND YANG STOCKS

Many tech issues are still best suited for trading. But these days, there are some you might buy and hold

By David Henry

Tech stocks are back. So, too, is the problem that frustrated so many investors during the late 1990s boom: how to size them up. The first hurdle is the cost because, once again, tech stocks are hugely expensive by the usual measures. Those in the Standard & Poor's 500-stock index are priced at 33 times their estimated 2003 earnings, a 79% premium to the index as a whole. Shares of Internet leaders Amazon.com and Yahoo! Inc. are off the radar at 70 and 87 times expected earnings, respectively.

What's a tech investor to do? Start by dividing stocks into two categories: those for trading and those for investing. With trading stocks, you make money by figuring out whether other traders will keep buying or start selling the stock and positioning yourself accordingly for a few weeks or even days. By contrast, with investing stocks you aim to buy into a company at an attractive price, given the worth of its assets and likely future profits, regardless of when the value will be recognized by the market. This way, you can steer clear of overpaying for fashionable dogs.

There's nothing revolutionary about this strategy, of course. It's just a question of calmly mixing and matching some old, and apparently somewhat contradictory, stock market wisdom and applying it to a hot market. About 70 years ago, British economist John Maynard Keynes, who earned stock market fortunes for his Cambridge college and a London-based insurance company, said investors should view the market as a beauty contest, and they should mainly buy trading stocks that other people would find attractive. American hero Benjamin Graham, the father of modern securities analysis, bristled at that idea. He lamented that stock buyers, though almost always called investors, are often actually speculators. Instead, he preached that they should make a hard-nosed assessment of the inherent value of companies and search out investing stocks.

At the height of the NASDAQ market boom of early 2000, the very idea that any tech stock could still be an investing, or value, stock was implausible. Aside from the much-hyped Internet stocks, shares of such solid companies as Microsoft Corp. and Intel Corp. soared as if growth in the companies were boundless. But much of the speculative fever that drove the big names way up cooled way off, and the stocks deflated as their businesses suffered an inevitable cyclical downturn. Now, these companies are settling

CHRIS SICKLES