



Stock watch

Investors face near-term uncertainty, but long-term confidence

Investors, analysts and business journalists the world over are wrestling with the big picture of understanding what is happening in the economy and the markets more generally. Are we in a freefall to a recession or merely wending our way to healthy, moderate growth? Are stocks near the bottom or stuttering their way down to bearish hibernation?

Tracking the NASDAQ

March 10, 2000 was the end of the bull technology market. As we enter the first anniversary of the bear technology market, investor

woes continue unabated in the billing/OSS sector. Virtually mirroring the yearlong decline in the NASDAQ Composite Stock Index, the average billing/OSS company we follow has lost about 61% of its value, tracking the evaporation of the NASDAQ, which lost 58.1% over the same period. The tumble remains symptomatic of the overall communications sector. Morningstar's Communications mutual fund index was down 46.1% in the same annual period. Year-to-date, Billing/OSS stocks are down 13.9%, whereas Communications

stocks are down 14.9%. The biggest decline since the inception of the NASDAQ index in 1971 was 59.9%, during the period from January 1973 to October 1974. Now THAT was a time for market pessimism! OPEC drove oil prices through the roof, inflation was raging in double digits and the Nixon presidency was crumbling. Virtually every economic indicator was in a sustained decline as the world suffered through the worst recession since the great depression. Under even the wickedest scenarios, these conditions

hardly threaten today. Outside of technology stocks some other parts of the world are mildly optimistic. Key economic indicators are slowing, but still growing. The New York Stock Exchange (NYSE) is down only 7.5% from last March. Morningstar's index shows gains in the financial sector of 40%, natural resources of 29% and real estate of 30%.

Spending slows

Overall, economic growth is tapering. The same holds true for the communications sector. Figure 1 shows billing/OSS revenue growth over the last eight →

Figure 1: Billing/OSS Industry Historical Revenue Growth
Average quarterly increases from same quarter, previous year

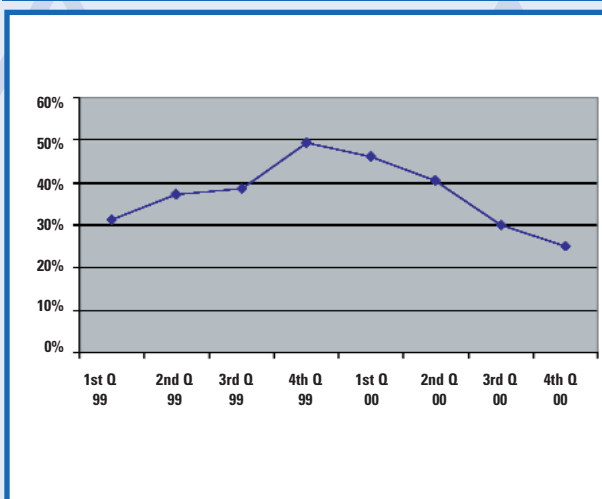
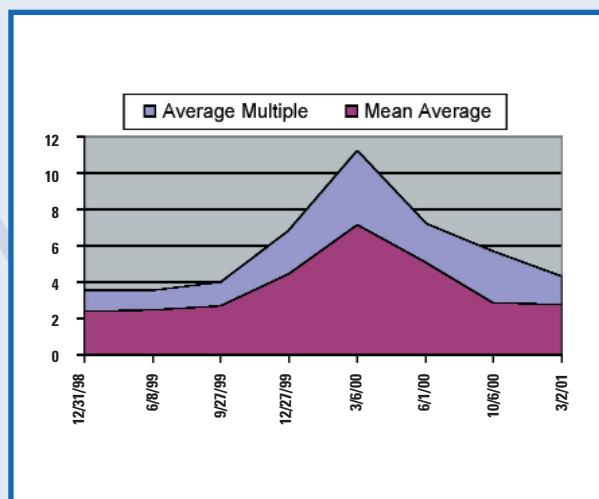


Figure 2: Billing/OSS Industry Historical Price to Sales
Market cap divided by trailing twelve month revenue



quarters. Service providers were in a spend-happy mood in 1999, driving software and service companies' quarterly revenues up and up. Then, 2000 saw a slow, irrefutable reversal. When comparing figure 1 and 2, we quickly see that Billing/OSS values remain inextricably interwoven with revenue growth. Look in the crystal ball, figure out when service providers' spending will level out or resume upward progress and you'll likely have the answer to where the bottom of the market rests. This will require some

analysis of billing/OSS revenues. **Go where the money is**
The two primary causes behind decreased billing/OSS revenue growth have been the problems in the US CLEC market and declining spend by companies who rely on long distance revenues. But evidence abounds of multiple new revenue sources that are stepping up to fill the vacuum. Smart investors scout out the places in the economy where lots of money is expected to be spent and then invest in the companies that are best positioned to get some of that money. Some areas of actual and expected intense revenue

spending are broadband access, intelligent network services, voice and data network interoperability, enterprise network management, multimedia communications like video streaming, new wireless applications, and start-up emerging carriers and awakening PTTs in newly deregulated markets outside of the US. Ongoing and rapid advances in networks, software, hardware and new ingenious applications of technology will also contribute in ways not yet translated into economic benefit.

Near-term uncertainty, long-term confidence

How long it will take to send billing/OSS spending (and stock values) back on a significant upswing cannot be known. The difference between this bear market and others in the past is the very presence of technology as a major force in the economy. While the general economic future remains uncharted, almost any scenario would ultimately produce increased demand for billing/OSS. And thus, confidence in long term values in the sector remains well justified. ■

Index of Public Billing & OSS Companies

Company	Ticker	-----Price \$-----		YTD % Change	52 Week High	Mkt Cap (millions)	P/E 2 Mar 2001
		2 Mar 01	29 Dec 01				
MetaSolv Software	MSLV	18.75	9.13	105.5%	96	20.1	54.69
SEMA Group**	SEMA	16.0625	8.63	86.2%	41.12	3,389.4	32.4
Veramark Tech	VERA	1.0312	0.63	65.0%	8.62	10,784.2	N/A
T-Netix Inc.	TNTX	3.1875	2.06	54.5%	9.62	905.2	N/A
Remedy Corp.	RMDY	23.75	16.56	43.4%	68.37	17,905.8	25.19
TTI Team Telecom	TTIL	19.5	15.00	30.0%	51.12	17.6	23.21
Evolving Systems Inc	EVOL	2.75	2.16	27.5%	14.25	271.0	N/A
Cellular Tech Serv	CTSC	3.375	2.81	20.0%	16.37	28.5	2.44
DSET Corporation	DSET	2.125	1.81	17.2%	33.12	17,750.9	N/A
American Mgmt. Sys.	AMSY	22.625	19.81	14.2%	44.37	2,142.8	20.83
Illuminet Holdings	ILUM	25.6875	22.94	12.0%	94	12.6	29.14
Astea International	ATEA	0.9375	0.88	7.1%	6.43	7,230.6	N/A
Crosskeys Tech.	CKEY	1	0.94	6.7%	15.62	60.6	N/A
Affiliated Comp Services	ACS	63.85	60.69	5.2%	68.6	17,118.2	27.66
AMDOCS Corp.	DOX	67.9	66.25	2.5%	96	39.3	78.9
Lightbridge	LTBG	12.5	13.13	-4.8%	27.5	6,947.4	16.89
Management Network	TMNG	11.125	11.88	-6.3%	41.87	49.6	32.54
Mind CTI**	MNDO	6.125	6.69	-8.4%	14.12	819.7	28.41
DST Systems	DST	59.79	67.00	-10.8%	74.93	219.7	34.66
Portal Software Inc.	PRSF	6.9375	7.88	-11.9%	79.87	88.9	N/A
Convergys Corp.	CVG	39.76	45.31	-12.3%	55.43	157.2	33.25
MDSI Mobile Data Solutions Inc	MDSI	6.875	7.88	-12.7%	90	643.3	N/A
CSG Systems	CSGS	40.9375	46.94	-12.8%	74.5	5,835.5	23.63
Vertel Corp.	VRTL	2.0625	2.38	-13.2%	51.93	2,371.2	N/A
Alltel Corp.	AT	54.1	62.38	-13.3%	73.37	826.6	8.68
TCSI	TCSI	1.1875	1.38	-13.6%	7.37	27,061.1	N/A
Ace Comm	ACEC	1.9375	2.31	-16.2%	18.87	5,213.4	N/A
Converse Technology Inc	CMVT	76.0625	108.63	-30.0%	124.75	40.5	59.73
Micromuse	MUSE	41	60.38	-32.1%	108.37	309.9	270.13
Ulticom**	ULCM	21.875	34.06	-35.8%	63	35.7	148.33
ADC Telecom	ADCT	11.4375	18.13	-36.9%	49	178.6	10.44
Siebel Systems	SEBL	36.0937	67.63	-46.6%	119.87	1,686.3	185.94
Daleen Technologies	DALN	1.6562	4.00	-58.6%	35.25	17.2	N/A
Boston Comm.	BCGI	7	27.88	-74.9%	29.87	86.7	39.52
Total Index		710.99	826.09	13.9%			

KEY: Gainers for the year to date (YTD) are in Blue, Losers are in Red.

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