

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

Long & Short Investing Strategies



JOSEPH PARNES founded Technomart Investment Advisors in 1979. He is President of the firm, directing all research, analysis and corporate strategy. As a result, Technomart Investment Advisors is currently recognized as one of the top investment advisories in the United States. Mr. Parnes is responsible for supplying the firm's private and institutional clients with actionable investment advice. He has experience across a broad array of industries, with a special focus on growth companies and on short selling strategies. He is also Executive Editor of the Shortex Market Letter, a tri-weekly publication providing specific market insight and recommendations on seven long and seven short positions.

Mr. Parnes has been featured regularly in Barron's including the September 12, 2005, feature article "And, Now, a Word From the Dark Side," Forbes, and Investors Business Daily. He is a well-respected opinion-leader in the investment community, providing a consistently contrarian and confident voice. His investment predictions are showcased in a broad array of media, including Bloomberg TV, CNBC, and First Business News. Mr. Parnes consistently selects issues that are technically ripe and marked by fundamental characteristics that indicate movement. He selects momentum issues for long positions while citing issues with expected deteriorating fundamental status for short positions. His consistent discipline, market timing and expertise in accurate forecasting has resulted in above-average returns for subscribers and portfolio management clients. He is well known for his contrarian views and tenacity within the investment community.

TWST: Would you start with a brief introduction of Technomart Investment Advisors?

Mr. Parnes: Technomart Investment Advisors is an independent advisory service. We focus on fundamental and technical aspects of the market. In incorporating a contrarian philosophy, we select positions in equities for the sole benefit of the clients. We utilize long and

short positions on large accounts, giving us an advantage to maximize our clients' portfolio during a bull and bear market. Today's market is reflective of our strategy, where short positions have maintained a neutral/positive balance in the portfolios of the clients. Depending on the objective of the clients, our short positions could range from 10% to 40% of the total assets managed for that particular client.

In addition, Technomart publishes the Shortex market letter which tracks seven long and seven short positions in each issue. Each stock selected is thoroughly researched from hundreds of positions and includes buying range, near-term and intermediate objectives, stop-loss for long positions, and for the short positions, we provide a short range, prices to cover shorts and stop-loss numbers for short positions so that it will guide subscribers in their portfolios.

Apple Computer (AAPL) and **Research in Motion** (RIMM), augmented with cash positions. The strategy of Technomart is well balanced in the current market condition. This is highlighted by the exposures of short accounts in sectors that have been leading the down trend in the place — financials, industrials, HMOs, retail, etc. Since the objectives of our clients are on the basis of a three- to five-year time frame, positions in fixed income or conservative accounts

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TWST: How has your portfolio been doing over this last 12 months? Have you been shorting more?

Mr. Parnes: For the aggressive accounts, where we maintain an allocation of 10%-40% in short positions, definitely the short positions' percentage has increased somewhat. There are of course clients where their structured portfolios do not allow short positions; those might be portfolios that are geared toward fixed income, retirement and other conservative accounts. Bear in mind, though, that the percentage of short positions can increase for the institutional clients.

TWST: How has the market been in this uncertain economic time? How have you been able to play the volatile markets that we have been having?

Mr. Parnes: The current market condition has been challenging. For the fixed income, conservative accounts we have maintained positions in what we call anchors, the likes of **United Technologies** (UTX), **IBM Corp.** (IBM), **Exxon Mobil** (XOM), **3M** (MMM), **Johnson & Johnson** (JNJ), etc., as well as municipal, corporate bonds, medical instruments, and biotech companies. For the aggressive accounts we maintain momentum issues, the likes of

will be in a continued accumulation while positions in aggressive accounts will be subject to liquidations when the price objectives of the momentum issues are being met — in long or short positions.

TWST: In the June Shortex newsletter, you talk about the resiliency of the market in your future forecast.

Mr. Parnes: Although the major indices have fallen to a level of a bear market (known to technicians as an excess over 20%), the general market has shown a remarkable resiliency. Despite the credit/mortgage meltdown, together with the bailout of Bear Stearns and solvency fears of **Fannie Mae** and **Freddie Mac**, the market is trying to adjust itself with the effect of rising oil prices and side-step the inflation that could endanger the expected global economic growth. The excesses of 2001 through 2007 in the housing market are being digested in coming months

TWST: Would you take us through your investment decision-making process and tell us how you find the shorts and find the longs? What investment criteria do you look for?

Mr. Parnes: In developing the idea for the shorts, I have to emphasize that the strategy of short selling is difficult to master. They require quite a lot of the evidence and support just on the re-

verse side of the long position. Fundamentals are the vital part, as well as the technical chart pattern of the issues in question. The corrections are part of the contraction of the p/e ratio of an issue when the earnings growth has fallen from a specific growth rate. The increase in the daily volume on the negative side is indicative that exiting is taking place.

For the long positions, the fundamentals and earnings growth rate are the hallmark of the selection. Naturally, general market conditions and accumulation with high volume by the institutional investors play a big role in selection of the long issues. Since most of the investors are highly programmed to retain a long position, naturally the contraction/retraction of each issue should be monitored with regard to their technical pattern. Investors/traders often maintain a steady accumulation mode despite expected hiccups arising from quarter to quarter earnings report. Eventual performance in long positions will normally be achieved during a strong general

Cold sectors include airfreight/airlines, automobile, casino/gaming, HMOs, regional banks, and aerospace/defense.

TWST: I'm surprised there's no listing of homebuilding in the cold sectors.

Mr. Parnes: The homebuilding sector has been mentioned as being cold in many prior issues and many of these have been in an oversold position.

TWST: What are some of the long positions that you have been acquiring in the last 12 months or so that you feel are representative of your approach to long?

Mr. Parnes: We have been acquiring in the past 12 months issues in the following sectors. In health/medical instruments/biotech, names would be **Teva Pharmaceutical (TEVA)**, **Zimmer Holdings (ZMH)**, **Myriad Genetics (MYGN)**, **Forest Labs (FRX)**, **Genzyme (GNZ)**, **Thermo Fisher (TMO)**, **Elan Corp. (ELN)**, **HOLOGIC (HOLX)**, **Biogen Idec (BIIB)**, and **Johnson & Johnson**.

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market with a time frame of one to three or five years. Persistent investors would be rewarded handsomely if such investors take advantage of markets' fluctuations/corrections by accumulating more of the same issues with expectancy of strong earnings.

TWST: In the Shortex newsletter, you mention the hot sectors and the cold sectors.

Mr. Parnes: Shortex is issued every three weeks and in each issue the hot/cold sectors are updated. Currently the sectors of interest are:

Hot sectors include wireless services, food retail, biotech, brewers/distillers, agriculture/fertilizer, and machinery.

In technology, names would be **Apple Computer**, **Google (GOOG)**, **Research in Motion**, **America Movil (AMX)**, **QUALCOMM (QCOM)**, **Oracle (ORCL)**, **IBM Corp.**, **Verigy (VRGY)**.

In energy, names would be **Exxon Mobil**, **Sunpower (SPWR)**, **Anadarko Petroleum (APC)**, **Itron (ITRI)**, **Schlumberger (SLB)**, **Halliburton (HAL)**, **FMC Technologies (FTI)**, **Foster Wheeler (FWLT)**, **Mexco Energy (MXC)** and **Flowserve (FLS)**.

Industrials would include **Cummins (CMI)**, **United Technologies**, **3M Co. (MMM)**, **Caterpillar (CAT)**, **Agrium (AGU)**, **Joy Global (JOYG)**, **Monsanto (MON)**, **Danaher (DHR)**, **Badger Meter (BMI)**, **Atwood Oceanics (ATW)** and **Cascade (CAE)**.

TWST: What are some of the anchors of the portfolio?

Mr. Parnes: The portfolios are being positioned with diversified companies that could maintain their price valuations during the volatile market condition. Normally, these companies are settled with consistent performance earnings growth and are being accumulated by institutions, pension funds, mutual funds and various establishments. These are companies such as **United Technologies, IBM, Goldman Sachs (GS), Google, Johnson & Johnson, CSX Corp. (CSX), Danaher, Exxon Mobil, Schlumberger** and **MasterCard (MA)**.

TWST: Do you invest in international stocks or do you concentrate on the large cap US companies that have international operations?

Mr. Parnes: We maintain positions in international stocks mostly in issues that are traded in ADR format, for example, **Teva Pharmaceutical** and **America Movil**. If it is in the best interests for our clients, we focus on ADRs or known companies that are attractive in both the United States market and internationally.

TWST: One of the features of having a contrarian philosophy at times is that you occasionally find a special situation that doesn't fit the mold. Is there anything like that in the current portfolio?

Mr. Parnes: The special situation may be derived from a particular issue where a special product or strategy of a company involved may influence the investment community, resulting from above average earnings growth or gross margins or spectacular market penetration. Special situations are periodically mentioned in the Shortex market letter in its short and long positions. Similarly, such positions will be held in clients' portfolios as well.

TWST: Would you give us some idea of what type of companies that you are shorting these days?

Mr. Parnes: Presently we hold short positions in the following companies: **Chico's FAS (CHS), Crocs (CROX), FedEx (FDX), Jos. A. Bank (JOSB), Jones Soda (JSDA), Legg Mason (LM), The Men's Wearhouse (MW), MGIC Investment (MTG), NutriSystem (NTRI), Ruby Tuesday (RT), Sears Holdings (SHLD),**

“Another short position is PetSmart. We feel that retailer PetSmart will be probably hit hard if the average consumers are cutting down on their expenditures Discretionary expenditures will eventually be hit as well. Even though pets are loved by many, I don't think their owners will go to the excesses that they did before. Therefore companies with tremendous numbers of retail outlets will be hit hard when the revenue slides and the cost of the mortgages and rentals are not replaced by the revenue coming in.”

We avoid investing into speculative markets or select bourses where we cannot determine the nature of the regulatory status of a company listed in that market. Let's put it this way — even here in the United States there are some difficulties in information gathering. Think about how difficult it is to research valid information on companies in developing countries, where one doesn't even know how the government will impact these companies or if the government will even exist in a few years.

UnitedHealth (UNH). I would say we have been shorting in the accounts, financials, consumers, airfreight and some of the retailers.

We zero in on the companies that we feel have exhausted their earnings growth and there's the possibility that their earning power is slowing down or perhaps they are not making the money that they made before. I can give you some of the examples that we just listed within our recent market letter on the short side. For example, we shorted **FedEx** at \$79.77 and advised clients that air-

freight's earnings prospects will be hurt because of the higher fuel prices and so on, and we also indicated to them that that particular stock was shorted in our issue number 42707 dated 11/28/07 at \$97.12. At that time, we had predicted to cover the short at \$78.79 and that's exactly what it is today.

are big cap companies that have solid foundations, their fundamentals are strong and they produce some dividends. Of the 70%, we divide 30% of it into growth companies, mostly focused on medical instrumentations, drugs, pharmaceuticals, biotech technologies and health oriented sectors. The other 40% is then divided, 10% to 20%

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Another example of one of the shorts that we had before that we did very well on in the portfolio accounts was in July 3, 2007, we shorted Bear Stearns at \$143.89, and at that time, our only criterion for the short was the technical aspect of the company. We did not have that much information that a demise would be coming to that company. Many of our clients sort of covered their positions at \$79 or something in that line, and very few selected to stay with it longer.

Another short position, for example, in the financials, is **Morgan Stanley (MS)**. Another one is **PetSmart (PETM)**. We feel that retailer **PetSmart** will be probably hit hard if the average consumers are cutting down on their expenditures Discretionary expenditures will eventually be hit as well. Even though pets are loved by many, I don't think their owners will go to the excesses that they did before. Therefore companies with tremendous numbers of retail outlets will be hit hard when the revenue slides and the cost of the mortgages and rentals are not replaced by the revenue coming in.

TWST: Would you describe the categories of the customized portfolios that you do for clients?

Mr. Parnes: We divide our portfolio into three categories: fixed income, conservative and aggressive. Once we discuss with our clients what they feel comfortable with, we formulate a percentage of equities to accommodate that classification. As an average, on the conservative side we classify 30% into what we call anchors, which

of it into a fixed income column, which we build and keep increasing so that it will bring consistent income.

Specifically the column could be made up of various entities of bonds — municipal bonds, tax-free bonds, corporate bonds, convertible bonds. These earn between 8% and 12% depending on the nature of the companies involved, and the down ratio attached to it. Within that 10% or 20%, we try to focus on new equities or small cap equities that we feel within the time frame of one to two years will mature in excess of 30% to 40%.

TWST: What triggers an exit from the portfolio? Do you set specific price targets?

Mr. Parnes: We track positions very carefully and will exit a position when the fundamentals start to change or a company has met our expectations with regard to its potential. On the long side, the only time that we exit is when we find that our growth rate is not being maintained and that there is a possibility that there will be some problems in the future earnings. If news temporarily brings the price of that particular stock down, it does not mean we would consider it a reason to exit. Rather, that would be a good reason for us to accumulate positions. On the short side, if our stop-loss is met, then we will determinate whether to exit the position before the price swings in the other direction.

TWST: What types of stocks have you sold or trimmed back on over the last 12 months as a result of the market?

Mr. Parnes: Examples of long positions are **Accuray** (ARAY), **BioLase Technology** (BLTI), **Caterpillar**, **Citigroup** (C), **Hologic** (HOLX), **Schering-Plough** (SGP), **UnitedHealth**, **United Technologies**, **Whole Foods** (WFMI), **Zimmer Holdings**.

Covered short positions include **American International Group** (AIG), **Beazer Homes** (BZH), **Crocs**, **Chico's FAS**, **FedEx**, **Legg Mason**, **MGIC Investment**, **UPS Corp.** (UPS).

TWST: What do you think gives Technomart its edge?

Mr. Parnes: Our strategy focuses on selecting momentum issues/equities for long positions, augmented by fundamentals and technical characteristics. Our short selling strategies take into account issues/equities that are viewed as technically mature, compounded with a foreseen deterioration of their future fundamental status. Our performance record and our constant discipline pro-

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TWST: What is the average turnover in your portfolio?

Mr. Parnes: We do not maintain an average turnover in our portfolio. Being fee-based gives us no reason for churning accounts. Our time frame for accumulating wealth is geared toward three to five years. We are still long in companies such as **Google**, **IBM Corp.**, **United Technologies**, **3M** and **Johnson & Johnson**. During market volatility, in many instances we have accumulated/built positions of stocks mentioned above.

TWST: By having investment strategies of longs and shorts, does this mean that you can weather a bull market or a bear market equally?

Mr. Parnes: In absence of accounts that disallow short selling such as 401(k), IRAs, SEPs, the intent of maintaining short positions is a strategy that can weather a bear market as we are having now. Bear in mind that the percentage of short selling varies from one account to the next, subject to risk tolerance acceptance of the account holder.

TWST: I just want to make clear the intent of your short positions.

Mr. Parnes: The intent of the short position is to mimic the action of the long position holders in spite of tax disadvantage. However, market timing may force us at times to cover short positions prematurely.

vides our clients with the piece of mind that we possess the contrarian confidence to hold certain positions that can provide the maximum profit in both up or down markets. Technomart Investment Advisors is unique in that we rely on our internal studies, research and matrices based on information developed from over 29 years in business.

TWST: Looking ahead to the second half of this year, are there any potential problem areas that you think investors should be wary of?

Mr. Parnes: Investors are being faced with high oil prices, geopolitical problems in the Middle East and Afghanistan, the US dollar decline, credit markets meltdown, housing dilemma, economic slowdown, and above all the coming presidential election. Surely, this agenda provides investors with difficult paths to chart. A selection of the various sectors may be a variant due to upcoming volatility in the market. With the changing time and new global economic paradigm, investors may find a different approach is needed to maintain a portfolio that is fitting to their investment philosophy.

TWST: Technomart Investment Advisors has been ranked Top Wealth Manager for four consecutive years. Would you tell us about your performance track record?

Mr. Parnes: As of this writing we have been recognized by *Wealth Manager* issue July/August 2008 as being ranked among the top managers for the fifth year.

TWST: Is there anything that you'd like to add?

Mr. Parnes: Although I've been in this business for over 29 years, I am now entering a period of true refinement of my skills and am looking forward to using these techniques to contribute to my clients' wealth. There is no short-term view here.

TWST: Thank you.

Note: Opinions and recommendations are as of 7/17/08.

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