

Net stocks stage Halloween rally
But month of October is as sobering as April

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NEW YORK (CBS.MW) -- Despite a hearty comeback Tuesday, Internet stocks closed out a month of sobriety in which the group endured its third-biggest-monthly decline ever.

The Goldman Sachs Internet Index jumped 10 percent to close at 330.75. The Amex Internet Index advanced 7 percent. Merrill Lynch Internet Holders rose 9 percent. Merrill Lynch Internet B2B Holdrs jumped 11 percent.

"The market was oversold and we saw a record performance from France's Alcatel, which is a good sign for the telecom sector," said James Glickenhau of Manhattan-based Glickenhau & Co. "Tax-loss selling season has come to an end and it looks like the worst is behind us."

Indeed, for the month, the 35-stock Net gauge lost 22 percent, the largest monthly decline since April, when the group fell 22.6 percent. It's also the third-biggest-monthly drop behind April and August of '98, when the gauge fell 30 percent.

The Nasdaq Composite, meanwhile, added 6 percent on the day but lost 8 percent on the month. The tech-heavy gauge has fallen six out of the last eight months.

The question, however, is whether stocks will stall again over the next two months or sprint toward the end-of-the-year finish line, much like last year.

Recall, during October '99, the Net barometer rose 2.1 percent, and went on to gain 23.4 percent in November, and 24 percent in December. The powerful end-of-year surge helped the Goldman Net Index score a 110 percent gain for '99.

So far this year, the Net barometer is down 54 percent.

Opportunity costs

Given the changes in sentiment about valuations and profitability, many portfolio managers and advisers are less optimistic about the prospects for the Internet sector as a group.

"The real blue chips in the Internet space and those that are profitable now, rather than those that have potential to be profitable, will receive the lion's share of attention," said Glickenhau.

That said, Glickenhau would place his bets outside the Internet realm and focus on chip companies, such as Micron Technologies([MU: news, msgs](#)) , Altera and Texas Instruments([TXN: news, msgs](#)) .

"It will be a mixed bag for the Net sector, but companies that are profitable are less risky bets," said Mark Furman, managing partner at Millburn Capital. "Even the so-called Net leaders, such as Amazon, will be challenged to work through uncertainties. They have to demonstrate that they can be profitable over the next 12 months because investors don't have the patience they once did.

"It's about opportunity costs," he added. Why bother looking at one company that has too much noise surrounding it when an investor can look at others that have sound business fundamentals, he suggested. [See Net sense.](#)

Some companies demonstrating profitability and worth noting are Exodus ([EXDS: news, msgs](#)) , EBay ([EBAY: news, msgs](#)) , America Online ([AOL: news, msgs](#)) and Inktomi ([INKT: news, msgs](#)) .


Some companies are demonstrating that they're on the fast-track to becoming profitable, such as Critical Path ([CPTH: news, msgs](#)) . Shares rose 3 percent to \$48.56. The provider of messaging infrastructure is holding its first analyst day this Thursday in Manhattan. For the month, Critical Path shares lost 20 percent.

Shares of Exodus shot up \$7.31, or 28 percent, to \$33.56. For the month, Exodus lost 32 percent. EBay rose 5 percent to \$51.50. For the month, the online auction king gave up 25 percent. AOL added 6 percent to reclaim the \$50 mark, down from \$53 at the start of the month.

Amazon.com ([AMZN: news, msgs](#)) ran up 11 percent to \$36.63 after falling 8 percent on Monday. On Tuesday, Sanford Bernstein analyst Faye Landis reiterated her "underperform" rating after reading Amazon's 10-Q, released Monday. "It appears the company's books, music, video, early stage and international businesses do not appear to be on the verge of becoming cash flow positive," she said. Landis also said that Amazon faces both near-term and long-term challenges. In the near term, Amazon will face competition from bricks-and-mortar retailers. In the long term, Amazon will be challenged to expand its product line.

Of note...

Etoys ([ETYS: news, msgs](#)) reported better-than-expected second-quarter results after the close Monday. Shares ended the session unchanged at \$3.75. While Etoys is operating more efficiently relative to the free-spending days of last year, the company's shares are still well below the \$20 IPO price it sported when it went public in '99.

And after going public just one month ago, AvantGo ([AVGO: news, msgs](#)) has opened its financial results to investors once again. The wireless Internet infrastructure company posted third-quarter results that beat expectations. Following the news, shares initially rose, but then fell 11 percent to \$9.84, a level well below its IPO price of \$12. 

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