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Annex Bulletin 2008-20

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Updated 10/09/08, 7:15PM PDT

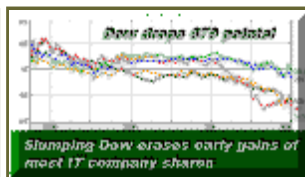
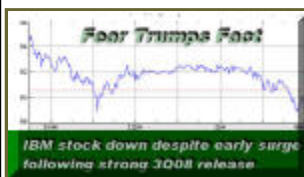
IBM's surprise third quarter "sneak peak" fizzles amid gloom and doom on Wall Street

Fear Trumps Fact

There is a total disconnect at the moment between stock market and business fundamentals

"Where ignorance is bliss, 'tis folly to be wise" (Thomas Gray, 1716-1771)

SCOTTSDALE, Oct 9 – In a market driven by fear, logic and reason can be dangerous to your financial health. Or as Thomas Gray put it more than two centuries ago, "where ignorance is bliss, 'tis folly to be wise" (Thomas Gray, 1716-1771). In a battle of fear and fact, fear will trump fact every time. And that's a fact. In short, there is a total disconnect at the moment between the stock market and the business fundamentals.



The preceding point was brought home today by the stock market's reaction to IBM's last night's surprise early announcement of its preliminary third-quarter results. The news was good. Big Blue had facts on its side (see [below](#)). And for a while this morning, the facts held sway and coaxed the market upward, including the shares of most major IT companies. But early gains melted away at the end of the trading day, as the Dow slumped another 679 points (see "[IBM, Internet losses lead broad tech plunge at close](#)", Dow Jones' MarketWatch, Oct 9).

Fear won. Reason lost. And least for today.

Good companies; profitable companies; companies with excellent cash flows - like IBM, Accenture and HP - were spurned and punished by panicked investors fleeing the equity

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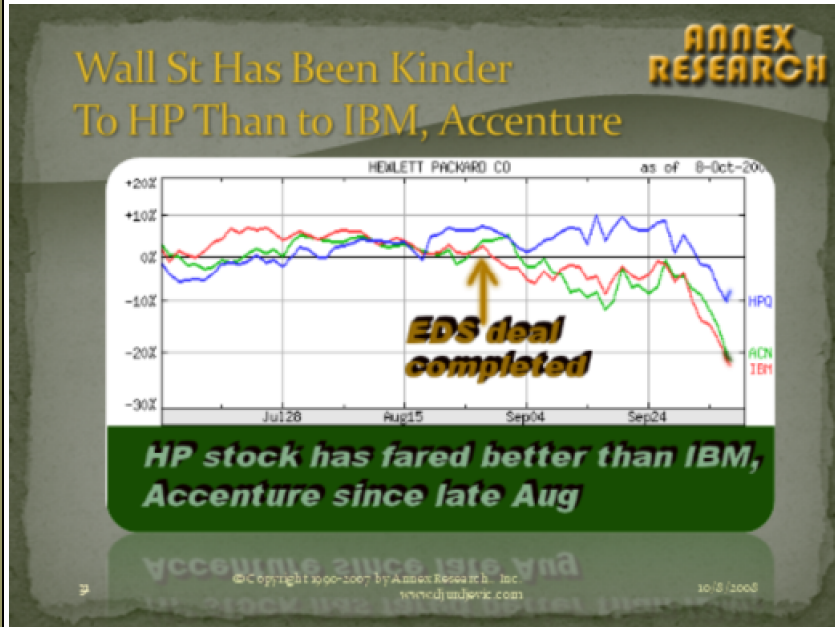
[The z10 Lifts "Big Green"](#) (Analysis of IBM's new mainframe announcement)

[HP Beats the Street Again](#) (Analysis of HP's 1Q08)

Bob Djurdjevic

Our Initial Reaction to IBM's "Sneak Peak" Release

SCOTTSDALE, Oct 8 - It is obvious that IBM is trying to stem a precipitous decline in its share prices (see the chart below) by releasing its preliminary 3Q results early.



It is also clear from the above chart that Wall Street has been very unkind not just to IBM (see [Big Blue Stock Sags on "New News" Days - Analysis of IBM institutional shareholdings](#)), but also to Accenture, a company that announced record results only a couple of weeks ago (see [Accenture's Quarter "Par Excellence" - Blowout 4Q Lifts Accenture over EDS to No. 3 in IT World; Bodes Well for Other IT Vendors' 3Q Results](#)). By contrast, even if HP shares are also down, they have declined at a lower rate than those of the other two major IT competitors.

Clearly, both IBM and Accenture have FACTS on their side (good news earnings reports). But they are facing severe headwinds on Wall Street driven by EMOTIONS (fear of recession). So it remains to be seen if facts trump can trump emotions. Which reminds me of the following quote:

Still, it's better to try and fail than not to have tried at all. Ultimately, Wall Street will get it right. It's just that sometimes one has to hold their charts upside down to see which end is up in the global IT industry. :-)

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