

The NASDAQ 100: Leading the Pack in 2008

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The cash flow from operations (CFFO) metrics, which StockDiagnostics.com monitors, indicate that the NASDAQ 100 index is poised to lead the market in 2008. The index is comprised of the 100 biggest companies that trade on NASDAQ, including eBay, Google, Microsoft, Dell, and Apple Computer. While it's doubtful that the NASDAQ 100, which was recently at 2103.01, will get back to its year 2000 bubble high of 4816.35 in 2008, its resurgence and the momentum it will create will propel both the S&P 500 and the Dow Jones Industrial indices to regular new highs during at least the first half of 2008, and the NASDAQ 100 will outperform both of the other two major indices by at least 25%.

Why so bullish on the NASDAQ 100? Its growth rates for its two key cash flow metrics, CFFO (which can be found on a company's cash-flow statement) and free cash flow (CFFO minus

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capital expenditures), have been accelerating for the last four consecutive quarters after decelerating for the prior six consecutive quarters.

Additionally, annualized cash flow from operations in each of the last four quarters has actually been growing faster than earnings. It is rare for any of the three major indices—the NASDAQ 100, the S&P 500 and the Dow Jones Industrials—to have their aggregated annualized cash flow from operations increasing at a faster rate of growth than earnings for periods that include at least two consecutive quarters. There were only eight periods (“period” meaning at least two consecutive quarters of annualized cash flow growth) when cash flow grew faster than earnings. Since 1997, it happened four times for the NASDAQ 100, twice for the S&P 500, and twice for the Dow Jones Industrial Average.

Each of the eight periods where cash flow grew faster

than earnings were followed by periods (consecutive quarters) in which earnings growth overtook and accelerated past cash flow growth. For example, after the dot-com bubble burst in 2000, cash-flow growth for the NASDAQ 100 overtook earnings growth for five consecutive quarters, from January 2001 through April 2002. When earnings growth was able to catch up with and pass cash-flow growth for the quarter beginning May 2002, the aggregated annualized earnings for the NASDAQ for the subsequent five consecutive quarters grew at 92.49%, 101.50%, 103.51%, 143.40% and 584.19%, respectively. This accelerating earnings growth that was accurately predicted by the prior quarters' cash-flow growth was the spark for the stock market bottoming in the summer of 2002 and the new bull market that began in October 2002. The table below is a good illustration of why periods in which cash flow is growing at a rate greater than earnings can be good predictors of accelerating future earnings growth. Every period of cash-flow acceleration (growing faster than earnings) was followed by significant earnings acceleration (far right column).

**Quarterly Annualized Cash Flow
Growth Rates for the NASDAQ 100**

Quarter Ended	CFFO % Growth Rate	Free Cash % Growth Rate
07/31/05	21.25	18.74
10/31/05	6.76	5.27
01/31/05	4.70	2.49
04/30/06	0.82	-1.47
07/31/06	-7.85	-13.55
10/31/06	-0.26	-9.27
01/31/07	1.46	-6.17
04/30/07	8.01	2.63
07/31/07	23.30	25.58

Major Indices (data excludes financial com- panies)	Period (consecutive quarters in which CF% growth > ER% growth)	Peak ER% for period in which CF growth > ER growth	Subsequent period in which ER > CF growth	Peak ER% for subsequent period in which ER > CF growth
NASDAQ 100	08/06 – 07/07	+22.05%	?	?
DJ Industrials	05/01 – 01/03	+7.11%	02/03 – 10/04	+31.85%
S&P 500	02/01 – 01/03	-4.91%	02/03 – 01/05	+461.79%
NASDAQ 100	02/01 – 04/02	-91.59%	05/02 – 07/03	+584.19%
NASDAQ 100	05/99 – 01/00	+34.59%	02/00 – 10/00	+58.62%
DJ Industrials	02/99 – 10/99	+31.75%	11/99 – 07/00	+39.99%
S&P 500	02/99 – 01/00	+21.54%	02/00 – 01/01	+43.11%
NASDAQ 100	05/96 – 04/97	+64.95%	05/97 – 04/98	+98.47%

Given that the cash flow metrics are accelerating and that earnings for the NASDAQ will soon be accelerating, here are my predictions for the stock market and the economy:

- The S&P 500 and the Dow Jones Industrials will close 2007 at or near their all-time highs.
- The NASDAQ 100 will continue to be the best performing of the three major indices for the foreseeable future.
- The performance of the S&P 500 will lag the performance of the NAS-

DAQ 100 and the Dow Industrials because 20% of the index includes financial companies, and its cash-flow metrics are not accelerating as fast as the Dow Industrials and the NASDAQ 100.

- The U.S. will not go into recession. The rapidly accelerating CFFO and free cash flow of the NASDAQ 100 indicates that a significant boom for technology and smaller companies has been underway for at least 12 months. Also, the most recent Dow Industrials' Free Cash (18.24%) and CFFO (10.75%) growth rates for the most

recent 12 months were the highest since October 2004 and January 2005.

- Interest rates will not go down for an extended period of time. They are more likely to go up by the middle of 2008 or even sooner, especially if anyone in the Federal Reserve sees this article and has any understanding whatsoever about CFFO and why it is such a powerful predictor of economic activity.
- The U.S. dollar will stabilize and will advance against most of the other currencies, as earnings momentum decreases the likelihood of further interest-rate cuts.

As for my winners, I found 16 of them, which have outstanding CFFO metrics among the members of the NASDAQ 100. I found no sinners, as most of the members of the index generate positive cash flow. In the table below are my 16 winners. **E**

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Symbol	Company	Price	5y low	5y hi	Mkt cap	CFFO % chg	Rev % chg
AAPL	APPLE INC	157.9201	6.36	159.18	137.3B	151.90	24.62
ADBE	ADOBE SYS	43.98	8.855	44.92	25.2B	38.04	17.09
AMAT	APPLIED MATERIALS	20.81	10.26	25.94	28.6B	48.60	18.16
CSCO	CISCO SYS	32.4501	8.12	33.38	197.9B	27.91	22.60
CTXS	CITRIX SYS	40.3501	5.57	45.5	7.2B	28.71	20.39
EBAY	EBAY INC	39.33	12.556	59.21	53.4B	11.78	29.33
INTU	INTUIT	31.14	16.65	35.98	10.5B	19.23	15.80
JOYG	JOY GLOBAL	51.36	3.4	72.23	5.5B	48.95	9.65
KLAC	KLA-TENCOR	55.2001	25.16	62.82	10.6B	93.76	31.90
MSFT	MICROSOFT	29.4525	21.4599	31.84	276.9B	23.55	15.45
NVDA	NVIDIA	35.8201	2.4	37.95	19.6B	207.08	34.51
ORCL	ORACLE	21.5675	7.65	22.17	110.4B	40.20	24.53
PAYX	PAYCHEX	40.81	22.5	47.14	15.2B	12.68	11.07
PCAR	PACCAR	85.7	13.64	98.63	21.3B	35.24	6.18
QCOM	QUALCOMM	42.27	13.66	53.01	70.7B	14.60	20.86
SPLS	STAPLES	22.12	7.78	28.00	15.7B	18.13	12.46