Time to Take a Bite Out of Apple?

By Michael Carlin, AIF, WMS
(480) 483-3489 ~ mcarlin@wealthmgtllc.com

In September of 2012 Apple stock touched $700 per share while settling into a record breaking market capitalization nearing $700 Billion. On a daily basis, industry experts and fans from the sidelines inquired about the day when Apple would cross the $1 Trillion mark in terms of total value. During those months in the fall of 2012, much hype and adulation over a new iPhone 5 release and whispers about a ground breaking Apple television set gave fodder for those searching for more reasons to push the stock price even higher.

What a difference eight months make.

Today Apple is around $400/share at the time of writing this article and it's down nearly 25% year to date while the US Market does well with the S&P 500 up 11.3% over the same time period. Even more eye popping is that from Apple's high in September it is down just about 40% while the S&P 500 is up 8. 50%. So the big question is: Should I buy the stock when it's down? Why is the stock down so much and how do I decide to take the plunge into buying these shares? The decision to buy the stock is a personal one, but for people looking for long term growth let me break down some essentials and look at four key elements:

1. Much of the bad news many feared about Apple is already on the table. We already know that they may need to drop prices on their profitable product lines like the iPad and iPhone. Recently news broke about offshore tax practices that raised a red flag for investors and caused CEO Tim Cook to testify on Capitol Hill. We know that Samsung provides stiff competition to Apple products. We already know that 2013 earnings estimates will be lighter than previously expected. Phew, with all that already known and the stock down because of that information – it's time to look forward for upside surprises that can move the stock higher!

2. Apple couldn't go up forever in a straight line. All good things come to an end. Let's go back to 1995 where Microsoft could do no wrong and Apple was a small cap technology company struggling to find an identity. From 12/30/94 to 12/31/99 Microsoft was up a total of 1,434% while Apple over that same time period grew by only 164%. When technology stocks fell apart over the next three years, both were cut in half (MSFT -52.25% and AAPL -58.8%). Investors have a clear memory of what happened to Microsoft, but is it a fair comparison? It is my opinion that it isn't the same for one simple reason – Microsoft's meteoric rise was largely due to an explosion in computer sales and usage that saw their marketshare climb to greater than 90%+ when fears of their monopoly started to unwind the stock price. Apple is a different story. They are a company creating products we didn't know we needed and now with iPods, iPads, Apple TV tuners and iPhones – we are all thinking of our technology needs very differently. Apple is still a growth story which should mean more potential future price increases. No worries about a monopoly with Apple controlling a relatively modest amount of the total markets they compete in.

3. Apple is still innovating and none of those innovations are counted towards the price of the stock. There is much rumor about future Apple products which goes to show you that even Apple's recent malaise doesn't slow down the bloggosphere's speculation about what's coming next. It appears that Apple is bringing out multiple sized iPhone screens, a cheaper iPhone for a lower end and emerging market customers, maybe an iWatch and lastly the often discussed Apple television set. When will those products come out? We don't know. If you wait until they do come out, the stock will move in advance of that information, so the time to buy is well before, not after the announcement.

4. Apple is increasing their dividend and buying their shares back. With a share price of $400, the dividend yield is 3.05%. That yield on the stock is surprising especially since we are at a time where a 10 year Treasury is yielding about 2.5%, a Baa2 Bank of America 10 year bond yields 3.26% and the 10 year Apple bond pays 2.87% with no hope of upside. Would you rather buy the stock at this level and get a decent return while holding out for better times and hopefully selling the stock for a considerable amount more within the next ten years? We now know that Apple will be buying their shares back in large quantities which reduce the outstanding number of shares and often have the impact of raising the share price as earnings per share go up accordingly.

There are lots of reasons to buy Apple and chances are the more bad news you hear about Apple and how it's not the right time to buy – can often make a great opportunity to dive into a company that is changing the way we use and interact with each other and our data. Please consult a financial advisor before deciding to purchase this stock.

Who is Wealth Management?

Founded in 2005, Wealth Management, LLC has become one of the fastest growing independent investment advisory firms in Arizona by remaining true to its founding principles and core strengths. The firm started out as Carlin Wealth Management Group (CWMG), providing individuals with investment management and financial planning characterized by careful due diligence and market monitoring that produced superior results. CWMG became affiliated with Henry & Horne, LLP in 2008 and changed the name to Wealth Management, LLC.

Michael Carlin, AIF, WMS, is the Managing Member and Principal of Wealth Management, LLC, affiliation of Henry & Horne, LLP. He founded the firm in 2005 which has already become one of the most highly regarded independent wealth management practices in Arizona. Contact Michael at (480) 483–3489 or mcarlin@wealthmgtllc.com.

WEALTH MANAGEMENT LLC