

The Financial Navigator – Summer Newsletter

With Apple on target to surpass Exxon as the largest US company as measured by stock market value we thought it would be entertaining to review what the investment community thought of Apple as it grew into the tech behemoth it has become; they often got it wrong as you can see. We also review some of the headlines in the financial press now, and a year ago. The similarities and the sense of crisis are startling, especially during a period when stock markets around the world ignored the crisis of the week and increased steadily over the past year. It might provide some interesting food for thought as we navigate through the latest financial crisis, the US debt level.

Please feel free to forward this newsletter to any individuals that you think might be interested or call if you have questions on the information provided.

Sincerely,

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Will Apple Be the World's Largest Stock?

Stock prices slumped around the world on Monday, July 18th, but shares of Apple Inc. shrugged off worries about a Greek government bond default, record gold prices, and surged to an all-time high of \$373.80. With a market value of over \$344 billion, Apple has already shouldered aside Microsoft to become the world's largest technology firm measured by market capitalization and is now second only to energy giant ExxonMobil among US stocks. It has all happened so quickly that despite its heavyweight stature in the US stock market, Apple shares are still conspicuously absent from the Dow Jones Industrial Average.

Apple's innovative products are the gold standard for personal communication and entertainment gadgets, and the company's fresh approach to store design generates sales-per-square-foot numbers other retailers can only dream about. As the company goes from strength to strength and the billions pile up on the balance sheet, it's worth recalling how uninspiring the future for the company looked not so long ago. Some sample views of Apple stock along with its price at the time are listed below; Apple's historical share price is adjusted for splits to facilitate comparison with current \$373 price.

- \$39: "Lately hitting a new high above 77, stock in Apple is not just high-priced—37 times this year's estimated profit—but high-fashion. ... Apple doesn't tempt me." Robert Barker, "Apple: It May Be Too Late to Take a Bite," *BusinessWeek*, February 14, 2005.
- \$12: "But behind the hype and buzz surrounding the iPod and Jobs, there are problems stewing at Apple. Its core computer business, which still accounts for 70 percent of the

company's sales, is withering. ... What's more, despite their soaring sales, iPods are depressing profitability because of their lower profit margin." Stephen Gandel, "Why iPod Can't Save Apple," *Money*, March 24, 2004.

- \$12: "I give them two years before they're turning out the lights on a very painful and expensive mistake." Quotation attributed to David Goldstein, Channel Marketing Corp. Cliff Edwards, "Sorry, Steve: Here's Why Apple Stores Won't Work," *BusinessWeek*, May 21, 2001.
- \$11: "Our conclusion is that Apple has started down a path that will lead to its demise as a serious player in the PC market. ... Further, we do not believe Apple will survive its next downturn, which will presage the company spiraling into insignificance as it loses any advantage of scale." Excerpt from Dataquest company report. "Dataquest Sounds Death Knell for Apple," Reuters, September 23, 1997.
- \$4 "Apple has attracted a growing crowd of short-sellers, professional speculators who bet against a company by selling borrowed shares they hope to replace later at a profit if the stock falls. The short-sellers, in fact, now hold the equivalent of 10 percent of Apple's shares." Steve Lohr and John Markoff. "The Incredible Shrinking Apple Computer" *New York Times*, January 26, 1997.
- \$6: "Apple may have few options other than to shrink the company or to eventually sell out to a deep-pocketed partner." E.S Browning and Jim Carlton, "Apple Still Hobbled Despite Write-Down," *Wall Street Journal*, March 29, 1996.

Over its thirty-plus years as a public company, Apple has turned out to be a very rewarding investment. One hundred shares purchased at the initial offering price of \$22 in December 1980 have multiplied to 800 shares after four stock splits with a current market value in excess of \$299,000. Over the same period, \$2,200 invested in the S&P 500 with dividends reinvested grew to approximately \$49,000. But how many investors would have had the patience to wait nearly three decades for their investment to bear such abundant fruit? At year-end 1985, for example, Apple shares were still stuck at \$22, and by year-end 2002, they had appreciated at an annual rate of only 4.4%—well below one-month Treasury bills for a twenty-two-year period. How many of us could have stuck it out, especially with industry "experts" telling us at the time that Apple's best days were behind it?

Some will study the ups and downs of Apple over the years and conclude that the roller coaster aspect of its business and its share price illustrates why clever timing is essential to successful investing. Our conclusion is that predicting the future is difficult and forecasting success or failure in the fast-changing world of technology is harder still. A tiny number of stocks available for trading today will produce sensational results in the years ahead. Owning a broadly diversified strategy can provide exposure to the market's most spectacular—and unexpected—winners.

Jerry Useem, "Simply Irresistible: Why Apple Is the Best Retailer in America," *Fortune*, March 19, 2007.

The Best of Times, the Worst of Times

For the twelve-month period ending May 31, 2011, equity investors around the world enjoyed the equivalent of blue skies and bright sunshine while the economic news was partly cloudy at best. Among forty-five developed and emerging-country stock markets tracked by MSCI, all but four had double-digit total returns (in US dollar terms), and twenty-six had returns of 30% or more.

If someone had told us a year ago that global markets would stage such a broad-based rally, we would have been inclined to think that trends in employment, housing, and financial distress were about to take a pronounced turn for the better. It seems hard to argue they have done anything of the sort. Somehow, despite gloomy financial page news that keeps repeating itself, equity prices marched substantially higher.

The moral of the story? Investors should be skeptical of their ability to predict future events and even more skeptical of their ability to predict how other investors will react to them.

Last Year's Headlines

"Europe Crisis Deepens as Chaos Grips Greece" - Sebastian Moffett and Alkman Granitsas. *Wall Street Journal*, May 6, 2010

"Fearful Investors Are Pulling Out" - Adam Shell. *USA Today*, May 20, 2010

"Housing Prices Remain Weak" - Sara Murray. *Wall Street Journal*, May 26, 2010

"Fear Returns—How to Avoid a Double-Dip Recession" - Cover story. *Economist*, May 29, 2010

"Spill Tops Valdez Disaster—Deep Trouble: There Was 'Nobody in Charge'" - J. Weisman, G. Chazan and S. Power. *Wall Street Journal*, May 28, 2010

"Discouraging Job Growth Batters Stocks" - Don Lee. *Los Angeles Times*, June 5, 2010

"Economic Outlook Darkens" - Jonathan Cheng and Justin Lahart. *Wall Street Journal*, June 2, 2010

"Bond Fund Managers See Signs of a Bubble" - Sam Mamudi. *Wall Street Journal*, June 8, 2010

"Rapid Declines Rattle Even Optimists" - E.S. Browning. *Wall Street Journal*, June 14, 2010

This Year's Headlines

"Greek Woes Fuel Fresh Fears" - Marcus Walker and Hannah Benjamin. *Wall Street Journal*, May 10, 2011

"Fear Wins: Stocks Resume Long Slide" - Adam Shell. *USA Today*, June 16, 2011

"Home Market Takes a Tumble" - Nick Timiraos and Dawn Wotapka. *Wall Street Journal*, May 9, 2011

"The World Economy—Sticky Patch or Meltdown?" - Cover story. *Economist*, June 18, 2011

"Japanese Nuclear Crisis Is Ranked at the Level of Chernobyl" - Mitsuru Obe. *Wall Street Journal*, April 12, 2011

"Jobs Data Stoke US Recovery Fears" - Robin Harding, S. Bond and M. Mackenzie. *Financial Times*, June 4, 2011

"Stocks Plunge Amid Fears That Global Economy is Slowing" - Christina Hauser. *New York Times*, June 11, 2011

"Why Are Investors Still Lining Up for Bonds?" - Jeff Sommer. *New York Times*, May 29, 2011

"Investors Shaken by the Fear Factor" - James Mackintosh. *Financial Times*, June 18, 2011

Thanks to Dimensional Fund Advisors and Weston Wellington for providing the above material. Past performance is no guarantee of future results.

If you have any questions on this topics, or need some help with other financial issues you are facing give me a call at (603) 373-8793.