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Five “Love ’Em Or Hate ’Em” Stocks

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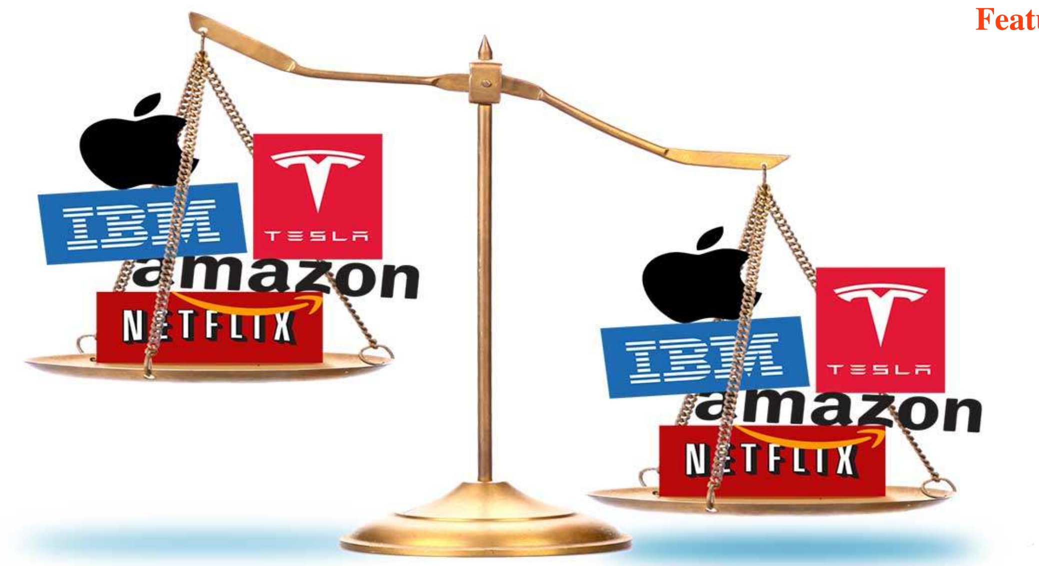

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Are They Right or Wrong for You?

Amazon…Apple…IBM…Netflix…Tesla. These currently are some of the most loved—and at the same time among the most hated—stocks in the world. Investors made huge profits on each of them in the past, but there is sharp disagreement now on whether they are “buys” or “sells”—even among legendary investors. For example, in the first quarter of 2016, Warren Buffett’s Berkshire Hathaway bought $1.1 billion of Apple stock around the same time that Carl Icahn was dumping Apple shares worth $4 billion.

Bottom Line Personal typically interviews experts who believe strongly that certain stocks are either great buys or should be avoided. But there is such a vast divide on these five stocks that we are bringing you both sides of the debate to help you decide whether these stocks are very right—or very wrong—for you.

Amazon.com (AMZN)

Can Amazon.com consistently turn enormous revenues into big profits despite heavy spending on infrastructure and new services?

Pro: Many investors think of Amazon as an e-commerce giant. But its surging profits and stock price over the past year are due in large part to its cloud computing business, Amazon Web Services (AWS), which allows individuals and businesses to store and access data and programs over the Internet. AWS dominates with an 80% market share of the “infrastructure as a service” segment of cloud computing, which provides the building blocks. The $38-billion-a-year segment likely will grow to $126 billion by 2020. The biggest competitors include Microsoft Azure and Google Cloud Platform.

Joseph Fath, CPA, is portfolio manager of the $44 billion T. Rowe Price Growth Stock Fund (PRGFX). TRowePrice.com(https://www3.troweprice.com/usis/corporate/en/home.html)

Con: Amazon’s potential growth already is reflected in its stock’s exorbitant valuation. The stock’s price-to-earnings ratio (P/E) is nearly 300, compared with an average P/E of 24 for companies in the S&P 500 stock index. Any hiccup in earnings growth could lead to a huge reversal in Amazon’s share price.

Vahan Janjigian, CFA, PhD, is founder and editor of *Bottom Line’s Money Masters Stock Report* and was ranked the No. 1 stock picker of the decade ending in 2012 by *The Hulbert Financial Digest*. BLMoneyMasters.com(http://blmoneymasters.com)

Apple (AAPL)

Can the formerly fast-growing company, which recently posted its first decline in quarterly sales in 13 years, keep introducing new blockbuster consumer devices that deliver tremendous revenues and profits?

Pro: Even if Apple never comes up with another device as popular as the iPhone, it is attractive for investors who seek bargain-priced stocks of companies that will produce reliable profits. The stock has fallen to its lowest valuations in 15 years, even though Apple can expect to rake in tens of billions of dollars in revenue annually over the next decade just by selling upgraded versions of the iPhone and other existing products. And it still has the potential to surpass Wall Street expectations with a variety of possible surprises.

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Con: Since Tim Cook took over as CEO in 2011, he has presided over just one new major product launch, the Apple Watch, which accounted for merely 0.7% of overall revenue last fiscal year. That leaves Apple dependent on iPhones for two-thirds of its revenue even as lower-cost, highly capable competing smartphones are widely available. The company also is underplaying problems in its second-largest market, China, where iPhone revenues have plunged and government regulators want Apple to stop selling the iPhone 6 and iPhone 6 Plus in Beijing because they say the phones infringe on patents held by a Chinese mobile-phone maker.

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IBM

For several years, IBM has been trying to reinvent itself and reverse a slide in revenues and profits by offering new services such as cloud computing. But its stock price has dropped 24% over the past three years amid disappointments. Can it transition fast enough to offset the decline in its longtime revenue source—expensive mainframe computers?

Pro: Even though its 2015 revenue fell nearly 12% from the previous year—and 2016 may not be much better—Big Blue is making progress. New services, which accounted for just 13% of overall revenues in 2010, will reach nearly 40% this year. And revenues for its cloud computing business jumped more than 50% last year. Consider investing for the same reasons that Warren Buffett increased Berkshire Hathaway's stake in IBM in the first quarter of 2016—the company is the biggest bargain of any blue-chip stock in the Dow Jones Industrial Average. While you wait, you get a hefty dividend, recently yielding 3.8%.

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Con: The stock is cheap for a reason. IBM has seen 15 straight quarters of declines in revenue. Its turnaround could take many years, and even then, the company is unlikely to dominate its new niches. It is facing heavyweights in cloud computing that have a big head start, including Amazon and Microsoft, which is buying the business-oriented social network LinkedIn in hopes of getting more companies to use its cloud-based services.

David Nelson, CFA, is chief strategist at Belpointe Asset Management, which oversees more than $400 million in assets, Greenwich, Connecticut. Belpointe.com (https://belpointe.com)

Netflix (NFLX)

Can Netflix spread its enormous success in the US to the rest of the world? While the company accounts for more than one-third of Internet activity in North America, it is pinning future growth on the more than 190 foreign countries it had added.

Pro: Netflix will continue to be the dominant streaming-video provider in the US and abroad. By the end of 2020, it will have an estimated 130 million video subscribers while competitor Amazon will have 50 million. *Reason:* Netflix’s much larger and more sophisticated user database tracks everything subscribers do with their subscriptions, which helps guide Netflix on adding content more effectively than competitors. Although a recent rollout in 130 countries has been slower than expected, it will pick up dramatically when the company introduces more country-specific content.

Kevin Landis is portfolio manager of the $75 million Firsthand Technology Opportunities Fund (TEFQX). FirsthandFunds.com(http://firsthandfunds.com)

Con: Netflix stock is up more than 550% since the beginning of 2013. That has left the stock with a P/E of 330, which will be hard to live up to. Overseas markets may never be profitable because huge amounts of content in different languages are required, and there are formidable competitors. *Example:* Russia has two streaming services that charge prices below Netflix’s. And Netflix may never launch in the world’s largest potential streaming market, China, because the government monitors what its citizens can see.

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Tesla (TSLA)

The maverick electric-car company has racked up $14 billion in preliminary orders for its upcoming Model 3 sedan aimed at the mass market. But the company has never made a profit on its higher-priced luxury vehicles.

Pro: Tesla has raised $2 billion in financing to help meet its 2018 production goal of 500,000 Model 3 cars. And there’s a good reason that this stock has gained an average of nearly 50% annually over the past five years despite a lack of profits and numerous production delays. It offers superior technology and safety. The company also has a viable strategy to drive down costs by mass-producing powerful lithium ion batteries at its Nevada plant scheduled to open next year.

—Joseph Fath, CPA

Con: Tesla, whose stock price dropped 27% over the past year, is struggling this year to produce 90,000 cars, and it is losing $4,000 on every car it makes. Even if it meets its 2018 production goals for the Model 3, it faces formidable challenges, including the need for nationwide after-sales service despite having no established dealer network and competition from BMW, Ford, GM and Nissan, all of which are making electric cars. And it is discouraging that CEO Elon Musk is pushing a $2.7 billion plan to buy clean-energy firm SolarCity, which doesn’t make business sense.

—Charles Sizemore, CFA

Sources:
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