

Apple and Google: Technology's New Leadership

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[Georges Yared](#) submits: Thursday, May 31st closed out the fifth month of an already interesting year in the equities market. Google ([GOOG](#)) is closing right around \$500 and looks positioned to move past its old high of \$513. Apple ([AAPL](#)) is closing in on another new 52 week and all-time high of \$121. Apple and Google have distinguished themselves as the new leaders of the technology world: the horses to chase. They are now the two table setters and the rest are trying to catch these two race horses.

The 1980's and 1990's saw the mantle handed over to Cisco Systems ([CSCO](#)), Microsoft ([MSFT](#)), Dell ([DELL](#)) and Oracle ([ORCL](#)). The leaders at that time were IBM ([IBM](#)), HP ([HPO](#)) and Xerox ([XRX](#)). The new leaders of Cisco, Microsoft, etc. companies posted up mega-growth year over year with innovative products and a hungry customer base. They collectively took advantage of a massive spending cycle by enterprises and governments. Other than Dell, who has major issues, the other three are back and growing at decent levels again. But the new leadership belongs to Google and Apple.

Google and Apple have one very strong bond in common. They both participate in growing sectors within the technology space and they are taking market share. It's one thing to take market share of a small growth industry, but it is quite another when a company is taking share and the industry is growing like a weed. For example, the restaurant industry is growing at about 6%, half from menu price increases and half organically. Any restaurant chain growing at a 10% or higher level is taking market share.

Google and Apple are in the news almost every day with a new product or service. The research and development arms of both companies are focused and leveraging off of a set of core competencies. Apple's natural extension of the iPod is of course the iPhone. Google being the leader in the search engine world provides huge opportunities for marketing and advertising. Other off-shoots from the search engine include maps, email services, business solutions and so many more.

Microsoft is now chasing Google. The world anticipates Google's next move and then watches to see how Microsoft will react. Apple, having never sold a cell phone in its history, has the entire industry nervous and reactive. The iPhone should be the next major leg of growth for Apple.

Both companies have kept analysts busy, constantly re-figuring their financial models. Apple and Google have high margins coupled with higher than expected revenue growth. Some naysayers have been negative on both stocks for the past year or so and have seen their prognostications blow up in their faces. How many times I have heard them say "both are too expensive". My response has been consistent as it was back in the 1990's "you DON'T want to own them UNLESS they are expensive". The leaders will always capture premium multiples and pricing within the stock market universe.

These are not "value" plays. Value plays become value plays after they blow up. The past two years we saw Oracle, Microsoft and Cisco ALL become value plays. Dell is still not there yet. Microsoft, Cisco and Oracle as mentioned have all resumed growth, but they are no longer the leaders.

So will Apple and /or Google eventually blow up? Probably yes, **but the next 2-3 years look quite clear with mega-growth on all fronts**. You may be able to play these two as "value plays" and that's fine, but why miss the next 150-200% move to the upside waiting for that day? I saw more so-called professional portfolio managers miss the extraordinary returns made with Microsoft, Oracle and Cisco because they "were too expensive". When these names became value plays, I remember one particularly proud manager tell me "I bought Oracle right at the bottom!!" Great, he still missed a 30 bagger. This gentleman ran a growth fund--not a value fund. It's like a great home run hitter smashing that majestic home run when his team is down 12-0. Great now it's 12-1.

AAPL 1-yr chart



GOOG 1-yr chart



Disclosure: none

webwoman52 wrote on Mon Jun 4th @ 8:57 pm

i loved your comments on goog,i've wondered for awhile now why more people didn't get in before it started to move again. thanks for getting it. webwoman52@yahoo.com

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