After Apple's fall, is it time to buy or sell?

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An Apple MacBook is seen on display as customers browse an Apple retail store in central London, Thursday, Aug. 25, 2011. Steve Jobs resigned as CEO on Wednesday, saying he could no longer handle the job and would continue to play a leadership role as chairman of the board. (AP Photo/Sang Tan)

(AP) -- Should you buy or sell Apple?

After the announcement that Steve Jobs is stepping down as CEO, investors pushed Apple's stock down 0.7 percent on Thursday. By contrast, Wall Street analysts reacted with predictable optimism: Buy - a lot.

So who is right? The pros or the investors?

The short answer may be the pros, though the stock is probably not the bargain that many of them assume.

One popular way to value a company's stock is to look at how high it is trading relative to its earnings per share. It's a rough measure, but it does show that Apple is not much more expensive than the average company. At Thursday's closing price of $374 per share, Apple is trading at 12 times its expected earnings over the next 12 months compared with 11 times for the Standard & Poor's 500 index.

Translation: For every dollar you spend on Apple, you should expect roughly the same earnings as you would get on the average company.

The difference, of course, is that Apple has a tendency to beat expectations and send its stock soaring. It's up 16 percent since Jan. 1, and it briefly topped Exxon Mobil this month as the most valued U.S. company.

One reason the stock trades at a discount to its stellar reputation is a bit counterintuitive: The company has been so successful at producing hot products, starting with the iPod in 2001, then the iPhone in 2007 and last year's big hit, the iPad. The problem is, no one knows if the company can keep this up, especially now that its visionary CEO is resigning (though he will stay as chairman). If Apple doesn't produce more big sellers, estimates of future earnings may prove too high.

But Shaw Wu, an analyst at Sterne, Agee & Leach, says investors are confusing the image of Apple as an innovative, rebel company with the less colorful, but reliable profit maker that it is.

"It's not just a company producing hit products," Wu says. "The earnings have become more predictable."

Despite the popularity of its iPhone, Wu estimates that it still only accounts for 5 percent of cellphones in the world. He believes the iPhone's market share could triple to 15 percent, especially given the opportunity in China, where the company has started selling. He notes that Nokia at its peak had 40 percent of the cellphone market.

Similarly, Wu is bullish on Apple's Macs and iPads. He says they now account for more than 10 percent of the world's computers. He expects that to double. He says that Hewlett-Packard, at its peak, captured 25 percent of the PC market.

Both Nokia and HP are now hurting in part because of Apple's successes with the iPhone and the iPad.

"China is the next big frontier," says Wu, who's been recommending the stock since it was $40. "It's where the next $100 (jump) could come in the stock."

There are plenty of reasons for doubt, however. Even if Jobs had stayed on as CEO, the company faced numerous challenges. Rival phone makers such as Motorola, Samsung and LG Corp. are making inroads using Google's Android operating system for smartphones, which are just about as easy to use as Apple's iPhone. And the success of the iPhone and rival smartphones, which can play music and video, means fewer people need iPods from Apple.

Then there's the challenge of mathematics. As a company gets bigger, it's harder to get the same percentage increase in earnings that investors have come to expect.

Apple earnings have been growing an average of 60 percent annually over the past five years. But can investors really expect that to continue with annual earnings estimated to hit $26 billion the fiscal year that ends in September?

Even Apple fans such as Timothy Ghriskey, co-founder of Solaris Asset

Management, which owns Apple stock, notes that selling iPads and iPhones to the Chinese and coming out with new versions of old products will only go so far.

"There is predictability to the earnings two or three years out. But beyond that? Who knows what the next handheld communications device is going to be?" he says. "Apple has to keep coming up with the (next) new thing."

To bulls, though, the benefit of buying stock now is that investors have already priced a bit of this danger into the stock.

"There's always the risk they'll lose their mojo, their magic," says Wu. "But that's why it trades at 12 times."