The Wall Street heretic who called Apple's swoon

April 18 2012, By BERNARD CONDON , AP Business Writer

This April 5, 2012 photo shows the company logo at the Apple Store in London. No one is sure why Apple's stock finally stopped rising last week, but you might point a finger at Walter Piecyk, a veteran analyst who apparently has uncanny timing when it comes to issuing critical reports on hot companies. (AP Photo/dapd, Martin Oeser)

(AP) -- He calls himself an "Apple fanboy," owns four iPads and two iPhones, follows the company obsessively and predicts it will keep turning blockbuster profits. But whether you should own the stock is another matter.

He says it's just not worth it.

No one is sure why Apple's stock finally stopped rising last week, but you might point a finger at Walter Piecyk, a veteran analyst who apparently has uncanny timing when it comes to issuing critical reports on hot companies.

After Piecyk published a bold attack on Apple last week, the stock fell five days in a row, wiping out 10 percent of the company's market value, or $53 billion - about what the most optimistic projections say Facebook is worth.

As if anticipating the drop, and perhaps the hate mail, Piecyk listed a dozen Apple products he owns, and why his family loves them, in his report April 9. He titled the section: "Am I an Apple Hater?"

"It's not about the products," Piecyk said in an interview Tuesday, as the stock finally broke its losing streak. "It's whether the stock discounts all the risks."

Piecyk thinks one big risk is that Apple could have a harder time selling iPhones if phone companies stop subsidizing most of the $600 purchase price for customers who trade in old models, as they have in the past.

He noted that AT&T has stopped paying for upgrades of iPhones for customers in two-year contracts. Piecyk expects Apple to sell 27.5 million iPhones this quarter, down from 33 million the three months before.

But the details of his argument seemed to matter less than his decision to remove Apple from his list of "buy" stocks.

In the heavily bullish analyst community, it was a heretical move. When Piecyk published the report, titled "Downgrading Apple to Neutral," trader blogs lit up with criticism - and some praise, as much for his courage as for his views.

Of the 48 analysts who cover Apple, eight have a "hold" on the stock, according to FactSet, a provider of financial data. No one rates it "sell."

Whether everyday investors were even aware of Piecyk's report is unclear, and how much it had to do with the sell-off is impossible to determine.

Others have pointed to a federal investigation into how Apple and publishers set the prices for e-books, and rumors that the company will launch a smaller version of the iPad that might hurt sales of higher-priced models.

Then there is the easiest, perhaps best, explanation.

"I think it was due for profit-taking," said Shaw Wu, an analyst at brokerage Sterne Agee. "The stock has gone vertical."

Apple traded at about $100 in March 2009. It climbed steadily for three years and reached $405 at the end of 2011. Then it really took off - a gain of more than 50 percent in three months.

Apple closed at an all-time high of $636.23 on April 9, the same day Piecyk issued his report. By Monday, it had fallen to about $580.

Piecyk, 40, has been calling stocks for more than a decade. He was an analyst at Paine Webber before jumping to several small brokers. He said he likes that his current employer, BTIG, a broker for institutional investors, doesn't help companies bring stocks and bonds to the market, which otherwise could present a conflict of interest.

Critics of Wall Street analysts say fear of losing that lucrative business, known as underwriting, explains why many analysts tend to be bullish on the companies they cover.

Piecyk said he believes that phone carriers are tired of seeing their profit eroded by the subsidies they pay to keep iPhone customers on their networks. He noted that AT&T's subsidies explain why its own profit margins in its wireless business have fallen from 44 percent to below 30 percent in just two years.

Wu, the Sterne Agee analyst, said he doesn't think subsidies will be cut because the iPhone attracts customers, helping subscriber growth, and those customers spend more on data.

Wu predicted that Apple will hit $750 within a year and has a "buy" rating on the stock.

Among other criticisms, Piecyk thinks investors may have overestimated the willingness of customers in China, Brazil and other developing countries - big targets for Apple - to shell out $600 for an iPhone.

And he thinks investors are too confident that the company, after its success with the iPhone and iPad, will come up with next must-have product. That has been a losing bet in the past.

"There is this expectation that there will be this revolutionary new product," Piecyk said. "But what if it doesn't turn out quite as revolutionary?"

Citation: The Wall Street heretic who called Apple's swoon (2012, April 18) retrieved 28 April 2024 from https://phys.org/news/2012-04-wall-street-heretic-apple-swoon.html

provided for information purposes only.