

Facebook in your mutual fund? It could be soon

May 10 2012, By MARK JEWELL , AP Personal Finance Writer



This undated photo provided by Pax World Management shows Chris Brown, chief investment officer for Pax World Funds and portfolio manager for the Pax World Balanced Fund. Mutual fund managers are scrutinizing Facebook's strengths and weaknesses before public trading of its shares begin on May 18. The initial public offering will be hard to ignore for managers specializing in technology stocks, and those focusing on the large-cap, growth-stock market segment that Facebook will join. (AP Photo/Pax World Management)

(AP) -- Facebook can be a terrific way to connect with friends and family, a colossal drain on your time and productivity, or a little of both. Soon, another facet will emerge: investment opportunity.

Mutual fund managers are scrutinizing Facebook's strengths and weaknesses before public trading of its shares, which is expected to begin May 18.

Because of its size, the [initial public offering](#) will be hard to ignore for managers specializing in [technology stocks](#), and those focusing on the large-cap, growth-stock market segment that Facebook will join. It's expected to be the biggest IPO for an Internet company, surpassing Google's 2004 market debut.

Facebook might seem to be an obvious potential buy for those managers, given its amazing rise from dorm-room startup in 2004 to the world's largest online social network.

But successful stock-picking means being price-conscious. Until late last week, fund managers had little to go on in assessing Facebook's potential investment value.

That's when Facebook disclosed in a regulatory filing that its shares would be priced in a range of \$28 to \$35 apiece. The specific price is to be released the day before trading, and decision time is approaching for fund managers considering Facebook for their portfolios.

A select few have already jumped in. Dozens have acquired private shares of Facebook over the past year-and-a-half, in some cases through secondary markets that are off-limits to average investors.

More than 30 [Fidelity Investments](#) funds recently owned private Facebook shares, including Fidelity's largest stock fund, Contrafund (FCNTX). But Facebook made up just 0.1 percent of that \$84 billion fund's portfolio at the end of March, and other Fidelity funds holding Facebook had similarly small investments, spokeswoman Sophie Launay said.

Another big fund company, T. Rowe Price, recently reported that 19 of its funds owned private Facebook shares, in nearly all instances making up less than 1 percent of each fund's portfolio.

Morgan Stanley has also been active. Its \$1.7 billion Focus Growth Fund (AMOAX) recently held 3.6 percent of its portfolio in Facebook shares.

Several other funds from smaller companies have purchased shares on secondary markets. Below are comments from interviews this week with managers of two such funds: Chris Brown of Pax World Balanced (PAXWX) and Thomas Vandeventer of Tocqueville Opportunity (TOPPX). They discuss the potential rewards and risks - worth considering for investors in funds that count Facebook among their holdings, or for individuals considering investing directly in the stock.

REWARDS:

Facebook's potential is undeniable because the site has more than 900 million users. There are huge profit opportunities for Facebook and its investors from advertising revenue.

Brown believes there's still plenty of untapped potential. He sees a big opportunity if Facebook can generate earnings from highly-targeted ads tailored to appeal to specific Facebook users based on their interests.

"Right now, the ads are more about building brand awareness," Brown says. "But if advertisers could specifically target a certain demographic, by age group or gender, for example, that's where the profit margins would be very beneficial."

Vandeventer is cautious about the short-term outlook, but optimistic in the long-run.

"It's still a pretty young company, and we don't really know how they will monetize," or find a way to significantly increase the income it generates from its online services, he says.

But he adds that Facebook "has basically penetrated half of all current Internet users on Earth. So it's a huge opportunity for a profitable business model."

"It is not that different than if you had invested in [Google](#) back in 2004, or even LinkedIn a year ago," he says. In both cases, the companies went public as their income-generating potential was still unclear. Yet each has proved itself. Google's shares debuted around at \$100 apiece, and today trade at around \$615. LinkedIn shares opened at \$45 last May, and now trade at around \$112.

RISKS:

Despite its vast user base, Facebook isn't yet generating a huge amount of revenue by Wall Street standards. While first-quarter revenue grew 45 percent from a year earlier to \$1.06 billion, it declined 6 percent from the fourth quarter.

"They may have to spend more money to grow this business, and that could put pressure on profit margins," Brown says.

Other key challenges include attracting more users who access Facebook from mobile devices such as smartphones and tablets, and generating mobile ad revenue. Most Facebook users are on personal computers, and Brown believes Facebook is lagging somewhat in the faster-growing mobile space.

Mobile applications "could certainly be a good growth driver, but it could also be a challenge for them," Brown says.

Another key issue is whether Facebook can someday expand into China, the world's most populous country. It's shut out now. China's government blocked Facebook as well as Twitter after the social media services were instrumental in anti-government protests in Iran two years ago.

However, Vandeventer still sees plenty of opportunity to grow globally.

"In the United States, they are only 60 percent penetrated currently," he says. "Then there's India, Brazil and so on. There is still plenty of potential growth, absent China."

"There is a mission statement at Facebook, which is to connect all the people of the world. And that means all the world, so long-term there is an objective of getting into China."

THE BIG PICTURE

[Facebook](#) has established its user base, and increasingly its prospects as a profitable company depend on execution. Vandeventer believes Facebook's executives are capable of building a hugely profitable business, although founder Mark Zuckerberg may not strike many observers as a typical CEO. Zuckerberg showed up at meetings with prospective investors this week wearing a hoodie, a staple of his wardrobe.

Vandeventer was among those at a New York City meeting, and he's comfortable with the youthful vibe the executive team exudes.

"Who cares what Mark Zuckerberg wears to his meetings? I don't. What I care about is that he executes. The team that I saw has a pretty firm grasp of what's going on."

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