

Out-of-patience investors sell off Amazon

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In this June 16, 2014 file photo, Amazon CEO Jeff Bezos walks on stage for the launch of the new Amazon Fire Phone, in Seattle. Amazon.com reports quarterly financial results on Thursday, Oct. 23, 2014. (AP Photo/Ted S. Warren, File)

Amazon has long acted like an ideal customer on its own website: a freewheeling big spender with no worries about balancing a checkbook. Investors confident in founder and CEO Jeff Bezos' invest-and-expand strategy flooded into the stock as the company revolutionized shopping, upended the book industry and took on the cloud—even though its vast range of initiatives ate up all the company's profits.

After all, when Amazon.com filed for its IPO 17 years ago, it was very clear: the company would post losses for the "foreseeable future" while it invested in the business to drive bigger and bigger sales. Stockholders seemed to like playing Bezos' long game: shares more than quadrupled between 2010 and 2014 to over \$400 apiece.

Lately, they've lost a little patience.

After the Seattle company on Thursday reported a huge third-quarter loss and issued a disappointing holiday forecast, the stock sold off by nearly 10 percent. It's now lost 28 percent of its value since the beginning of the year, closing at \$287.06 Friday.

Daniel Morgan, a Synovus Trust portfolio manager, invests in Amazon. He has no current plans to sell, but he knows Wall Street investors and analysts "tend to have very little patience; they don't really want to hear a long-term story."

What they want are answers. Particularly when there's now another e-commerce powerhouse to invest in: Chinese e-commerce player Alibaba, which went public in September in a \$25 billion [initial public offering](#), the largest ever.

"Frankly, we believe it's impossible to predict Amazon's profitability during this prolonged 'investment cycle', but profit metrics are clearly moving in the wrong direction and it's a fair question to ask, does Amazon have too many 'balls in the air'?" said Wells Fargo analyst Matt Nemer.

"I've been wondering, and I think a lot of investors have this question as well, in terms of when things don't go as anticipated in some of the bigger projects where there's not a revenue stream... what's the process for determining whether to plow ahead or turn back capital and redeploy

it in other areas?" Stifel Nicolaus analyst Scott Devitt pressed on Amazon's earnings call Thursday night.

CFO Tom Szkutak defended the company's strategy but admitted Amazon needs to pick-and-choose its projects.

"We certainly have been in several years now of what I will call in investment mode," he said on the call. "There's still lots of opportunity in front of us but we know that we have to be very selective about which opportunities we pursue. "

For years, Amazon's strategy has been spending the money it makes to grow and expand into new areas. It launched a smartphone, the Fire, this summer and has been offering a set-top video-streaming device, a streaming video service and several tablets and e-book readers. The company has also been investing in services for its \$99-a-year loyalty program, Prime. It has added a [grocery delivery services](#) and music streaming for Prime members as well as offering original TV shows such as the critically acclaimed "Transparent" starring Jeffrey Tambor.

But all of those initiatives cost money and time to develop. And not all of them have been hits.

The company's splashy launch of its Fire phone was quickly followed by mediocre reviews and a steep price cut to entice buyers. Amazon said it took a charge of \$170 million related to "inventory evaluation and supplier commitment costs" for the Fire, although it did not give further details. Amazon has about \$83 million of Fire phone inventory at the end of the quarter.

So investors are increasingly signaling that Amazon needs to work harder at turning a profit.

"The market was looking for more in terms of revenue and operating income and the fourth-quarter outlook," said Morningstar analyst R.J. Hottovy. "It's going to be a competitive landscape for retailers this holiday season and retailers will compete aggressively for consumers."

Synovus' Morgan said that although the company's Fire phone and other initiatives have not been instant successes, he's still optimistic about Amazon Web Services, Amazon's rapidly growing cloud computing platform. The company does not break out Amazon Web Services growth specifically, but Szkutak said usage growth was 90 percent in the quarter. IDC estimates Amazon Web Services had revenue of \$695.8 million in 2013.

"The hope is that Amazon Web Services is going to continue to take off and become what Amazon believes it to be," he said.

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