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Apple's share price

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Apple is an iconic brand. Now it is a totemic investment, too

THE new iPad, which was released on March **16th,** is the most popular version of the tablet yet. Apple sold **3m** of them in just four days. But some buyers took to discussion forums to report that it has a tendency to heat up. A similar debate exists about Apple's stock.

The company's share price has risen by **83%** in the past year, and by almost **50%** so far in **2012.** Apple is now easily the largest company in the world by market capitalisation, at some **$565** billion. It looms over Exxon Mobil, which is worth a mere **$408** billion. Since the start of this year it has added **$187** billion to its valuation, roughly equivalent to the entire market caps of companies like Procter & Gamble, Johnson & Johnson and Wells Fargo. Apple is larger than the American retail sector combined.

It accounts for **4.5%** of the s&p **500** and 11% of the global equity market (see chart **1).** Some bank analysts have started to report America's corporate earnings without Apple, because including the firm so skews results. Fourth-quarter earnings are expected to have risen by **6.7%** from the prior year for companies in the s&p **500,** but by a much more modest **3.6%** if Apple is excluded, according to **UBS.**

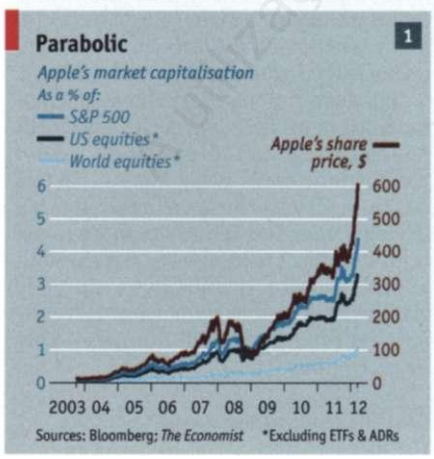
Around a third of all hedge funds own it, including big names like **SAC** Capital and Greenlight. Some have made very big bets. Citadel's **$5.1** billion stake in Apple (as of December **31st)** accounted for around **12%** of its equity portfolio. Many hedge funds that have done well in the past year owe much to this single position.

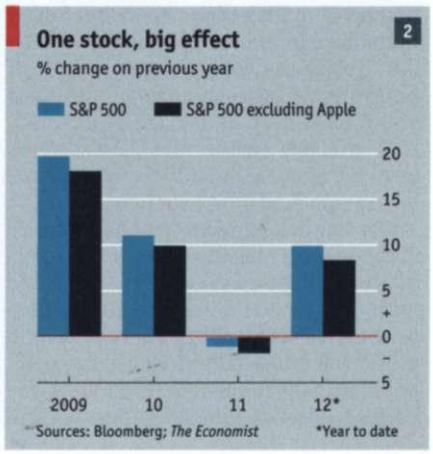
The stock's gains this year have not only boosted the spirits of shareholders but also brightened the whole equity market. Apple is responsible for more than **10%** of the s&p **500**'s rise this year (see chart **2),** and for **39%** of the **NASDAQ 100**'s gains. No other stock has ever grown to have such a significant impact on an index so quickly, says Howard Silverblatt of Standard & Poor's, a ratings agency.

The share price keeps soaring. On March **20th,** a day after Apple announced it would use some of its cash hoard (estimated at **$97.6** billion at the end of **2011)** on a quarterly dividend and a **$10** billion share buy-back, its shares closed at a record high of **$605.96.** This is the first time in **17** years that Apple will pay a dividend. Dividend funds, which had not considered investing in Apple before, could pile in, potentially pushing the price higher still.

Most analysts remain committed fans of the shares. Some claim that a **$1** trillion valuation could soon be possible. The bullish case runs as follows. Apple has low penetration in the personal-computer and smartphone markets, and can hook millions more customers in emerging markets like China and Brazil. Although questions remain over how much of Apple's innovation was due to its magician-in-chief, Steve Jobs, who died last October, the launch of the new iPad has calmed nerves somewhat. Apple is poised to enter new arenas like television and mobile payments.

The firm still has a ton of cash to invest in new products and ward off emerging threats. Horace Dediu of Asymco, a data-analysis firm, has estimated that even after the dividend payout and any buy-back activity this year, Apple could still end **2012** with over **$35** billion more in the bank than





• it had at the end of the previous year. With an historic price-earnings *(pie)* ratio of 22, shares are not as dear as you might expect, and look even more attractive when the p/e is calculated based on forward earnings. Apple's revenues are forecast to grow by at least 51% in fiscal-year 2012 and by 23% in 2013, according to Morgan Stanley.

Others reckon that the outlook for its business is not the only thing that has been driving the steep ascent of Apple's shares. The stock has seen such heavy gains in recent weeks that many investors can't afford not to have Apple in their portfolio. Fund managers that are judged against a benchmark where Apple is heavily weighted, like the NASDAQ 100 or the S&P 500 technology index, have to scramble to keep a heavy exposure to Apple. "The speed of the move and the size of the company scare people who haven't got it," says Andy Ash of Monument Securities. "The danger is that you end up with everyone buying it because they have to rather than because they want to."

Some wonder whether the stock is headed into bubble territory. Apple's p/e is much lower than that of stocks in the dot-com bubble; America Online's was a ridiculous 154 in 1999. But contrarian thinking is thin on the ground. There is very little short interest in Apple. "Call" options, which give the right to buy Apple stock, are much more expensive than "puts", which give the right to sell the stock, says Mark Sebastian of Option Pit, a consultancy. Of the 54 analysts who track Apple stock, only one has a sell rating, according to Bloomberg. Robert Shiller, a Yale economist and author of "Irrational Exuberance", reckons that the "emotional attachment" to the Apple story and "wild" enthusiasm about its stock are reminiscent of a bubble. "You could play the bubble, because it might not be over yet, but I wouldn't put money in

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• Apple stock," he says.

Even if bubble talk is over the top, a higher share price is justified only if Apple continues to meet earnings expectations. That usually gets harder. The stocks of market-leading companies historically underperform once they have reached the top slot, since they are less nimble and more vulnerable to attacks by regulators and the press. It is harder to continue impressive earnings growth on a large base. Even a modest earnings miss could have a big effect on the share price, since more of Apple's shareholders today are fickle traders.

If there was a fall, it would ripple. Technology investors, which have a higher concentration of Apple in their portfolios, are the most vulnerable. Apple makes up more than 18% of PowerShares Q Q Q , an exchange-traded fund with heavy exposure to technology stocks, for example. More unsettling are funds that have strayed into buying Apple against their mandate, including some mutual funds that are supposed to focus on smaller companies. "If Apple has a wobble, you could see it dictate broader market movements," says Alec Levine of Newedge, a broker.

Hedge funds could be among the biggest losers. They look clever now for buying a stock that has seen such a rise, but they will look dumb if they lose money when it falls. Some may question whether they should earn such high fees simply for buying into the world's most valuable listed firm. Where's the genius there?

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