3 Ticking Time Bombs to Avoid!
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By Paul Mampilly, Editor of Profits Unlimited

If you were to take a tour of Xerox’s Palo Alto Research Company (PARC), you’d have come across things you see everywhere today:

- The first real personal computer that a regular person could use ... meaning you turn it on and start using it.
- Internet-connected computers that could talk to each other through a technology called Ethernet.
- Graphical user interfaces, or icons, which is how we all use computers today.
- Mouse technology, computer displays that had bitmaps and laser printers.

All this incredible technology in the hands of one company — Xerox.

By the 1970s, Xerox’s PARC invented just about everything we use everyday today. That includes what was recognized as the first true PC — the Xerox Alto. This sucker had everything — Ethernet networking, graphical user interface, icons, bit mapping, scalable type, a mouse and the world’s first laser printer. If you put it together, these things today represent hundreds of billions of dollars in sales.

Yet Xerox didn’t generate those sales. The company chose to ignore all this incredible technology and kept focusing on making copiers.

Even today, Xerox is synonymous with copying. In 1959, Xerox introduced the Xerox 914 copier, which could copy a document in the way we take for granted today and on plain paper. Before that, to make a copy of a document, you had to go through an incredibly cumbersome process that used copying paper —
carbon paper. The old way was messy, slow and expensive. You only copied things if you absolutely had to.

The 914 made it clean, quick and cheap on a per-copy basis. Xerox introduced the 813 copier, which brought plain-paper copying to your desktop. Sales at Xerox went through the roof.

Xerox stock, which was at approximately $0.25 a share in 1959, skyrocketed to over $30 a share in 1971. That's a gain of 11,900%.

Xerox stock should have kept on soaring, but it didn't.

Copying peaked in the 1970s, and computer technology started taking over. But Xerox chose to ignore all the incredible technology that it owned through PARC. Xerox watched Apple, Hewlett-Packard, IBM and numerous other companies take the technologies from PARC to generate billions in sales and profits.

In other words, sitting on the lead that it had was the worst business decision that Xerox could have made. It destroyed the company's future, and it destroyed Xerox's shareholders. Xerox stock topped out in the early 1970s and then proceeded to sink by 75%.

Rise of Internet 2.0

Today, we're on the verge of a critical decision point that's similar to what Xerox faced in 1970. In the next 10 years, you're going to see many companies destroyed by a new form of Internet computing — the Internet of Things.

The companies that are going to benefit from this new form of Internet computing are different than the most recent winners' technology. I've told you about five of these winners in my report entitled 5 Technology Stocks That Will Power the Next Industrial Revolution.

Today, we're going to focus on three stocks that are going to be destroyed by the rise of the Internet of Things, or Internet 2.0 as some people are calling it.

Now, some of you are going to be shocked by the stocks I'm naming in this report, because they represent some of the biggest, best-known and well-owned stocks in U.S. markets. And I understand that if you own these stocks, you may want to ignore my warnings. Just remember, Xerox was as well-known as any of these companies at one time.

And even though I focused on Xerox in my introduction, I could have told you about other companies that went through the same experience as Xerox. And about the people who owned the shares of these companies who didn't keep up with the next wave of technology and saw their wealth destroyed.

For example, there's Wang Labs, Gateway Computers and Fairchild Semiconductor. In other words, what I'm telling you is a real, significant threat ... one that could destroy your wealth if you happen to be an owner of these stocks.

Time Bomb No. 1

The first ticking time bomb is Intel (Nasdaq: INTC). Intel makes the brain, or the computer chip, that goes inside most personal computers. Intel took the lead in the making of computer chips with the introduction of the 80286 chip in 1982. If you bought Intel at the beginning of 1982 and held until the peak in August 2000, you would have made 20,550%.

What happened in August 2000? Turns out that around 1999 we reached the peak in growth of personal computers, which is what Intel's chips go into. No wonder Intel's stock price crashed from its peak in August
2000 and is now down 58%.

Why can't Intel make it back to the top again?

Well, Intel missed the next big wave of technology, which was cellphones and tablets — mobile-based personal computing. As a result, it never benefited from the millions of phones and tablets that people were buying.

And it wasn’t for lack of trying. Intel spent $7.4 billion in 2013 and 2014 alone to find a way to compete in mobile computing, but failed.

Product failures and poor decisions are the real reason why you should be selling your Intel stock today.

For example, one of the worst decisions Intel made came in 2009. Then, people were unsure what the next mobile communication platform was going to be. Intel chose to put their money on WiMAX. Unfortunately, another technology — LTE — won out. And Intel was suddenly out of the running for all the devices that were going to need chips that used LTE.

Another bad decision was Intel’s backing of the ultramobile PC in 2006, which preceded the tablet and the mobile internet device in 2007. Flop after flop after flop.

Intel now acknowledges that it’s missed the mobile-computing revolution and claims that it’s going to figure out a way to get in on the Internet of Things.

But here’s the thing I know from reading for hundreds of hours about business failures. Companies like Intel — that dominate one era of technology — usually don’t make to the next era. And this happens irrespective of how profitable they are, how much money they have in the bank or how well-respected the management of the company is.

Xerox had today’s equivalent of billions in the bank when their stock was destroyed. Need other examples of dominant companies with incredible amounts of financial resources and phenomenal brands getting destroyed by missing the next big thing?

How about Eastman Kodak when digital cameras wiped out film? Or Polaroid, when people chose Eastman Kodak’s superior film over instant, but poor-quality photos.

More recently, you can look at the success of Uber, a ride-sharing app that is single-handedly wiping out the taxi industry worldwide. Or Amazon, which is destroying big-box and mall retailing.

Intel’s future is bad, and the end is not too far away.

However, it’s not too late for you to get out. Intel is still valued by the stock market at $173 billion. If you sell now, you’ll save yourself from future losses that could eventually leave you wiped out.

Time Bomb No. 2

HP Inc. (NYSE: HPQ), formerly known simply as Hewlett-Packard, is the No. 1 maker of personal computers in the world. Its market share is a phenomenal 25.3%. Big market share is great, except when the product you are making is in steep decline. And that’s seen the high-water mark of its growth rate 16 years ago. Or where the product you’re making has experienced its worst quarter in eight years. In the fourth quarter of 2015, PC sales sank by 10.3%, falling to levels last seen in 2007.

The issues for HP are similar to the ones that Intel is facing. PCs are a mature technology. They still sell in decent numbers, but there’s no growth left in this business. In the first quarter of 2016, HP got 60% of its sales from PCs, and sales shrank by 17%.

However, the news gets worse for HP. The company gets the remaining 40% of its sales from printers. For
many of the same reasons that the sales of PCs have peaked out — such as the rise of mobile computing — printer sales are also collapsing. In the first quarter of 2016, printer sales dropped by 13%. And this isn't just a one-quarter phenomenon. HP’s PC and printer sales have been in decline for five years now, collapsing by 31%.

**Sales of Hewlett-Packard in Five-Year Decline**

To make matters worse, HP has no plan or prospect of escaping the declining PC and printer business.

Unlike Intel, HP’s decline can be seen in its financial condition. The company’s operating cash flow, which is a critical indicator of financial health, has shrunk by 49% over the past five years. Management has also increased debt by $7 billion over the past five years.

What’s more, HP’s overall cash management is awful. Over the past five years, the company has bought back $32.56 billion in stock, but it’s overpaying for the shares. That’s incredibly dumb! The company’s sales are collapsing, and operating cash flow has dropped by almost half, while, at the same time, the share price hasn’t dropped. The market is pricing the stock incorrectly.

Everything is aligning in the wrong way for HP. Its markets are shrinking. Its sales are collapsing. Its cash flow is being destroyed. It’s burning cash up by buying back stock when its stock isn’t cheap. And finally, it’s racking up debt by the billions.

HP is a dying company. It’s just a matter of when, not if, the company goes into a terminal decline.

**Time Bomb No. 3**

The last ticking time bomb company is so controversial that I was hesitant to put it in here. That’s because I know many of you love its products. Others own shares and believe in the future of the company. However, my research and my gut are telling me that the future of this company is poor. Before I go too much further, let me tell you that the last ticking time bomb … is Apple.

Apple (Nasdaq: AAPL) is the most famous tech company in the world. Go to any city in the world, and people know Apple’s symbol. That symbol and Apple stand for innovation, design, coolness, hipness, California high tech. Apple is the world’s most valuable company today, with a market cap of $686 billion. That’s more than half a trillion dollars. No other company in stock market history has ever hit such a high market value.
Apple has $20 billion in cash. That's bigger than what most countries have in cash. In its last quarter, Apple generated $27.6 billion in operating cash flow. That's the critical number that pro investors like me focus on. Once again, that's bigger than what most companies generate in five years. Apple is phenomenally profitable.

So, what's the problem?

The problem is growth. You see, despite having all these incredible things ... Apple has run out of growth. In the first quarter of 2016, this has become abundantly clear — sales dropped by nearly 13%. Operating cash flow dropped by 22.5%. It was the worst quarter for 13 years ... all the way back to 2003. That's when Apple was just beginning to roll out the string of blockbuster products that made the company so valuable.

I know many of you are going to be skeptical about what I'm telling you about Apple. However, my research shows that once a giant like Apple starts to fade ... it keeps fading.

Apple itself is the best example of this. Apple had its IPO on December 12, 1980. Following its launch, Apple released a series of PCs that were big hits — the Apple II and then the Macintosh, later renamed Mac. And then the well ran dry. By June 1985, Apple's board of directors fired founder Steve Jobs. And from there, it was downhill until Jobs came back in 1997.

When Jobs got to Apple, it was 90 days from bankruptcy. It took a $150 million stock investment from arch rival Microsoft to get Apple out of the hole. The rest of the story is that under Jobs' leadership, Apple released a string of hits — new Mac computers, the iPod, the iPhone, the iPad.

That gets us to today ... where Apple is the most valuable company in the world. And where the well of innovation that generated all those incredible products that got Apple to where it is now ... has run dry.

Apple Watch, the first product launched since the tragic death of Steve Jobs in October 2011, is a flop, for a company of Apple's size.

Another area the post-Jobs Apple has focused on — selling services — is doing okay. Services include things such as music, cloud storage and Apple Pay. Right now, services represent nearly 12% of Apple's revenue. In the last quarter, it grew by 20%. Some people point to this services part of Apple's revenue as a reason to be optimistic about the stock. They are wrong.

Ask anyone who owns an iPhone, iPad or a Mac computer. The things they hate the most about Apple are their services. Apple Music is poor compared to services such as Spotify or Pandora. Apple Maps is terrible when you compare it to Google Maps. And Apple's iCloud is more expensive and compares badly to Amazon's cloud service.

My point is this: People who own Apple stock because they think that the services growth will bail them out are putting the cart in front of the horse. The reason why Apple has any services revenue at all is because people love their hardware — the iPhone, the iPad, the Mac. If sales of their hardware are declining, it means that the revenue from their services is guaranteed to fall, too. It might take a few more quarters, but it will fall because fewer are going to be locked into using Apple's services.

Look, you can either go with hope ... or you can go with the facts. The reality is that Apple's iPhone, iPad and Mac sales have peaked. From 25 years of experience, I can tell you that when you see horrific numbers like that on a company's bread-and-butter products, you get out. You don't pin your hopes on long-shot prospects such as services.

Apple is a consumer-facing company. It has almost zero exposure to businesses, with a few exceptions in industries such as publishing and filmmaking. I've done hundreds of hours of research on the coming Internet 2.0 revolution. And right now, Apple has virtually zero exposure to this huge new trend.

Yes, Apple has talked about developing a self-driving car and other things to participate in this trend.
However, companies such as Tesla, General Motors and BMW are now 10 years ahead of Apple in working on this.

The other big area for the Internet of Things is industrial. As I mentioned earlier, Apple has zero exposure here and won’t benefit from the incredible wave of spending that’s going to benefit the companies that have the right product set for the companies building up their Internet 2.0.

It doesn’t matter how much money the company has in the bank ... or how successful it’s been in the past. The stock market is about growth first, second and third. Apple is no longer a growth company. It has peaked, and it’s going to fall. By how much? My best estimate is 50% to 70%.

Apple faces a decline similar to other companies whose success was driven by a cycle of hit products. One example is BlackBerry, which saw sales of its incredibly popular cellphones peak in February 2011. Its stock collapsed from a peak of $142 in June 2008 by 95% ... to about $7 today.

I also looked at Nintendo, where the sales of its Wii gaming console peaked in September 2008. The shares of Nintendo peaked in November 2007 and collapsed by 60% by February 2013.

And there’s the example of Apple itself collapsing from its initial success, with revenue peaking at $11.06 billion in 1995. The stock had gone up 371% from its IPO to $2.50 in March 1991 before cratering by 81%.

You should know that both BlackBerry and Nintendo, like Apple, had plenty of cash in the bank. In other words, these companies were never in jeopardy of going bankrupt. It’s just that people who owned these companies — when their sales were skyrocketing — were willing to pay high prices for their stock when that was happening. However, once the sales slowed down, there weren’t enough people who wanted to pay those high prices, and their stocks tumbled.

Those are the three Internet 2.0 ticking time bombs to avoid. Make sure you read our 5 Technology Stocks That Will Power the Next Industrial Revolution to get in on the companies that are going to be the winners of this incredible new technology revolution.

Regards,

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