



July 19, 2011

Will Apple Be the World's Largest Stock?

Down to the Wire

Stock prices slumped around the world yesterday [Monday, July 18], but shares of Apple Inc. shrugged off worries about a Greek government bond default and record gold prices and surged to an all-time high of \$373.80. With a market value of over \$344 billion, Apple has already shouldered aside Microsoft to become the world's largest technology firm measured by market capitalization and is now second only to energy giant ExxonMobil among US stocks. It has all happened so quickly that despite its heavyweight stature in the US stock market, Apple shares are still conspicuously absent from the Dow Jones Industrial Average.

Apple's innovative products are the gold standard for personal communication and entertainment gadgets, and the company's fresh approach to store design generates sales-per-square-foot numbers other retailers can only dream about. As the company goes from strength to strength and the billions pile up on the balance sheet, it's worth recalling how uninspiring the future for the company looked not so long ago.

Apple historical share price adjusted for splits to facilitate comparison with current \$373 price.

- \$39: "Lately hitting a new high above 77, stock in Apple is not just high-priced—37 times this year's estimated profit—but high-fashion. ... Apple doesn't tempt me." Robert Barker, "Apple: It May Be Too Late to Take a Bite," *BusinessWeek*, February 14, 2005.
- \$12: "But behind the hype and buzz surrounding the iPod and Jobs, there are problems stewing at Apple. Its core computer business, which still accounts for 70 percent of the company's sales, is withering. ... What's more, despite their soaring sales, iPods are depressing profitability because of their lower profit margin." Stephen Gandel, "Why iPod Can't Save Apple," *Money*, March 24, 2004.
- \$12: "I give them two years before they're turning out the lights on a very painful and expensive mistake." Quotation attributed to David Goldstein, Channel Marketing Corp. Cliff Edwards, "Sorry, Steve: Here's Why Apple Stores Won't Work," *BusinessWeek*, May 21, 2001.
- \$11: "Our conclusion is that Apple has started down a path that will lead to its demise as a serious player in the PC market. ... Further, we do not believe Apple will survive its next downturn, which will presage the company spiraling into insignificance as it loses any advantage of scale." Excerpt from Dataquest company report. "Dataquest Sounds Death Knell for Apple," Reuters, September 23, 1997.
- \$4 "Apple has attracted a growing crowd of short-sellers, professional speculators who bet against a company by selling borrowed shares they hope to replace later at a profit if the stock falls. The short-sellers, in fact, now hold the equivalent of 10 percent of Apple's shares." Steve Lohr and John Markoff. "The Incredible Shrinking Apple Computer" *New York Times*, January 26, 1997.
- \$6: "Apple may have few options other than to shrink the company or to eventually sell out to a deep-pocketed partner." E.S. Browning and Jim Carlton, "Apple Still Hobbled Despite Write-Down," *Wall Street Journal*, March 29, 1996.

Over its thirty-plus years as a public company, Apple has turned out to be a very rewarding investment. One hundred shares purchased at the initial offering price of \$22 in December 1980 have multiplied to 800 shares after four stock splits with a current market value in excess of \$299,000. Over the same period, \$2,200 invested in the S&P 500 with dividends reinvested grew to approximately \$49,000. But how many investors would have had the patience to wait nearly three decades for their investment to bear such abundant fruit? At year-end 1985, for example, Apple shares were still stuck at \$22, and by year-end 2002, they had appreciated at an annual rate of only 4.4%—well below one-month Treasury bills for a twenty-two-year period. How many of us could have stuck it out, especially with industry "experts" telling us at the time that Apple's best days were behind it?

Some will study the ups and downs of Apple over the years and conclude that the roller coaster aspect of its business and its share price illustrates why clever timing is essential to successful investing. Our conclusion is that predicting the future is difficult and forecasting success or failure in the fast-changing world of technology is harder still. A tiny number of stocks available for trading today will produce sensational results in the years ahead. Owning a broadly diversified strategy can provide exposure to the market's most spectacular—and unexpected—winners.

Jerry Useem, "Simply Irresistible: Why Apple Is the Best Retailer in America," *Fortune*, March 19, 2007.

Past performance is no guarantee of future results.

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