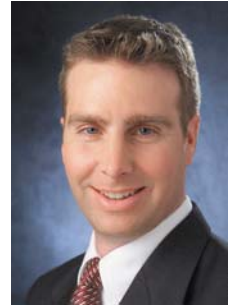


Technology giants Microsoft, Apple seen as strong bets

By Kathleen Gallagher of the Journal Sentinel

Posted: Feb. 28, 2010



About This

The Journal Sentinel focuses on one Wisconsin money manager or analyst in this weekly feature, looking at a trend that helps investment pros make their decisions.

Not everyone is limping out of the economic wreckage.

A number of big technology companies have maneuvered through the last two years' financial challenges with aplomb, said Ryan Erickson, chief investment officer at Holt-Smith Advisors Inc. in Madison.



"The balance sheets of the Microsofts, Googles, Ciscos and Apples are in great shape," Erickson said. "They have a lot of cash and little or no debt."

Erickson highlighted two of these companies that Holt-Smith holds:

Microsoft Corp. (MSFT, \$28.67), Redmond, Wash., recently released its Windows 7 operating system, which is faring better than its troubled Vista system, Erickson said.

"Windows 7 seems to have opened a door that's been shut for quite a while," he said.

Windows 7's new security measures and other benefits provide good reasons to upgrade, Erickson said.

Also, many software makers are trying to spur sales by ending support for versions that run on older operating systems like Windows XP, he said. Microsoft's June release of its Office 2010 software could help prod movement to Windows 7, as well.

Microsoft has 73% of the market for operating systems, outside of the netbook market, Erickson said. He views it as a "slow and steady, huge balance sheet, great cash flow," company.

"Despite Apple's exciting innovations with its operating system, there are a lot of business users who won't move off Microsoft PCs because the software they're using focuses on Windows architecture," Erickson said.

Microsoft's stock has traded as high as \$31.50 and as low as \$14.87 in the last 52 weeks. Shares are at a relatively low 14 times calendar 2010 estimated earnings, Erickson said. The company has \$3.40 a share in cash and a 1.8% dividend yield.

The economic cycle aside, the biggest risk Erickson sees is the possibility that buyers might spurn Windows 7, and "keep running Windows XP on dinosaur computers," he said. Microsoft could trade as high as \$37 a share in the next 12 months, Erickson said.

Apple Inc. (AAPL, \$204.62) Cupertino, Calif., has about 4% of the operating system market, but it's a more exciting story, Erickson said. Apple's balance sheet is "just as pristine" as Microsoft's, and the company has \$43 a share in cash, he said.

Apple shares have traded as high as \$215.59 and as low as \$82.33 in the last 52 weeks. They're reasonably priced at 16 times estimated 2010 earnings, Erickson said.

Like Microsoft, Apple is well-positioned to benefit from upgrades. Apple is also front and center in what Erickson calls the "youth movement." Young people are very comfortable with Apple's iPods and iPhones, which makes one of Apple's computers the next natural

step for them when they go to college or leave home for the first time, he said.

A year ago, few companies made software for Apple's products, but there's a growing awareness that a lot of people are using Macs at home to connect with their Windows-based systems at work, he said.

The biggest risk to Apple shares is the state of CEO Steve Jobs' health and the possibility that Apple could fail to keep coming out with products that make a difference, Erickson said. He said the shares could go as high as \$240 in the next 12 months.

JS