Throw This Stock Away

http://www.fool.com/investing/high-growth/2009/07/16/throw-this-stock-away.aspx

Rick Aristotle Munarriz
July 16, 2009

It's time to make the "Doh!" nuts.

Every week, I bash a company. I get hate mail. I get rep-scorching rebukes in the comment box following the article. I lose a few Twitter followers. My wife makes me sleep on the couch.

So be it.

I'm not here to sugarcoat the planet. I'm here to be a realist. I'm not a complete meanie, though. I also offer up three stocks that I firmly believe will outperform the stock that I'm knocking.

Who gets tossed out this week? Come on down, **Microsoft** (Nasdaq: MSFT).

Gates of steal
This isn't the first time that the world's largest software company is in this column's crosshairs. Microsoft was targeted in one of my earliest "Throw This Stock Away" columns last summer. It came back for more in a wintertime entry. Is the third time the harm?

A lot has happened at Microsoft since the last diss.

- It launched Bing and gained ground on **Yahoo!** (Nasdaq: YHOO) -- and that's good.
- **Google** (Nasdaq: GOOG) announced its entry into the operating-system space -- and that's bad.
- It's finally shaking off the stigma of Vista with the upcoming release of Windows 7, but it's down to selling its operating system at lower price points than before -- and that's good *and* bad.

Analysts have also been taking down the company's bottom-line estimates in recent months, even though Microsoft shares have been inching higher in that time.

Three months ago, analysts figured that Microsoft would earn $1.91 a share in fiscal 2010, which began two weeks ago for the company. Wall Street is perched at a $1.83-per-share profit target today. That may not seem like much of a drop, but the total is less than the company earned in its fiscal year that wrapped up in mid-2008.

Mr. Softy will report its fiscal 2009 results a week from today, and every single analyst following the company expects profits to clock in lower than the year before. Wall Street sees the top line taking a 9% hit.

In this economy, you can't simply chastise Microsoft for no longer being a growth stock. Many hobbled rock stars are in the same boat. However, it's hard to see Microsoft returning to its winning ways when operating-system prices are dropping, application software is moving to the cheaper cloud, and tightfisted companies are scaling back on server-related IT spending.

Bing is nice, but Microsoft has been trending deeper into red ink in cyberspace. The Xbox 360 is enough of a winner to offset the Zune joke, but Microsoft still posted an operating loss in its entertainment-and-devices division during its fiscal third quarter.

Oh, and don't get me started on the ridiculous decision to not only open a chain of Microsoft retail stores in a few months, but to actually admit to opening them *next* to **Apple** (Nasdaq: AAPL) locations. Isn't that going to make the "I'm a Mac, I'm a PC" ads incarnate?

I miss you, Microsoft. You're definitely not going away, but I can't see how you will ever be as relevant as you used to be.

Good news
As I do every week, I don't talk down a stock unless I have three alternatives that I believe will outperform the company getting tossed. Let's go over three new fill-ins.

- **Oracle** (Nasdaq: ORCL): The world's second-largest software company isn't a fierce rival of Microsoft, as CEO Larry Ellison stays close to his enterprise-software roots. However, I'm going to offer it up as a Microsoft replacement. It's different in several positive ways. Earnings estimates for fiscal 2010 have crept higher at Oracle over the past three months, and the company has topped analyst guesstimates in three of the past four quarters -- where Microsoft has beaten the pros only once, and missed twice, in that time. The companies trade at similar fiscal 2010 profit multiples -- about 13 for Microsoft and 14 for Oracle -- but I like Ellison's knack for unearthing accretive acquisitions. |
- **Ebix** (Nasdaq: EBIX): You probably aren't familiar with the provider of information-management software to the insurance industry. If not, you're missing out on an attractively priced growth story. The lone major analyst following the company sees earnings climbing by 14% this year and 21% next year. That's a lot of muscle in a recessionary climate, but Ebix is fetching only 12 times next year's projected profitability.
- **Rackspace Holdings** (NYSE: RAX): As client-based software moves to the cloud, Microsoft's server and tools business will hold up, but not enough to offset the shortcomings elsewhere. An investor's best bet is to consider a concentrated cloud-computing play such as Web-hosting giant Rackspace. More than two-thirds of the company's 62,078 accounts are cloud-computing applications. This area will never be as lucrative as Rackspace's bigger-ticket managed hosting accounts, but it's positioned perfectly as both companies and apps go online.

Let the Rick-bashing begin.

Other headlines out of the weekly garbage:

- Windows Vista Now Officially a Bad Dream
- I Can Make You Rich in 3 Years
- It's So Much Worse Than You Think

Previous Page