

Thank God It's Friday!

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There is only one expression to describe MICROSOFT: Party Pooper!

Just when the tech stocks were heading for the moon, along comes Mr. Softee to ruin the fun. Yesterday, the world's largest software titan reported quarterly financial results that fell short of analysts expectations. Could it be the expectations were unrealistic because Microsoft management had refused to offer any guidance to investors? Yup, that's our take. The disappointment of investors echoed in the canyons of Wall Street and Montgomery Street alike. Everybody was bummed.

You may recall that we have not owned the stock since 2007 when it traded at \$27. It closed today at \$23.45 down 8%. Even in 2007, we felt management moved too slowly to adapt to the new world and their products were no longer intriguing.

For you history buffs out there, this is the e-blast we sent out when parting company with the Microsoft shares:

"So long, Microsoft. We have sold Microsoft in your portfolios. Microsoft has been one of the most spectacularly successful stocks of all time. It has made Gates a household name as well as the richest man in the world. Microsoft operating system, Windows and related software dominate more than 90% of the personal computing market.

But the stock is no longer the growth monster that it was in the '90's. In fact, returns have been lackluster since 2000 and we don't see a catalyst for significant growth in the foreseeable future. Microsoft has launched two huge products in the past few months, its music player Zune and its new operating system, Vista. Neither has proved a big seller and just yesterday, Microsoft's CEO admitted that Vista's sales will be lower than anticipated.

Microsoft is still a very solid company. However, a "solid company" (even one that pays a nice dividend) is not good enough for Bedell clients, and so we have decided to bid farewell to Microsoft and offer our clients a holding with more promising growth prospects"

The lesson we take away is blue chips are never sacred. They deserve our critical analysis, not complaisance. Things change. The world has changed in the past year at an unimaginable pace.

Despite the MSFT earnings debacle this week, investors are holding on to the stock market's rally which has added 11% during the past 2 weeks.. mostly in response to Earnings Season which investors have interpreted as confirmation that the economy is healing and that a turnaround is possible by the end of the year. We agree but still hold to our opinion that recovery will not be a straight line up. Cooling off is inevitable considering the Dow was up 38.5% in less than five months, the biggest percentage gain in such a short period since 1975. The Nasdaq was up 12 consecutive days, something it never did even during the heyday of the 1990s tech boom. The S&P was up nearly 50% from its March lows and, more importantly, had clearly broken out of the 875-950 trading range that'd been in place since early May.

By: Jude Bedell