BUSINESS

INVESTOR'S EDGE

Splits make these stocks attractive

Amazon and Alphabet are currently trading well below their 2021 highs.

"Price is what you pay. Value is what you get." *Benjamin Graham*

Jim Burns CFA
Contributing columnist

In the good ol' days, you could buy blue-chip stocks for $40, $50, or $60 per share. In fact, it used to be common that when a stock hit $100 a share or so, companies would frequently announce a stock split to make the shares more attractive to investors.

Over the last two decades, stock splits have become less common thanks in large part to reduced trading commissions and the proliferation of investment funds. Notably, some of the most important companies in the S&P 500 have been selling at more than $500 per share.

Two of the major "big tech" stocks, Amazon and Alphabet (known more colloquially as Google), have lost more than 20% of their market value this year. At the same time, both have recently enacted 20-for-1 stock splits, making the shares more attractive for the retail investor than their lofty $3,000+ share prices from last year.

So, with both companies selling well off their highs, and the shares selling at more investor friendly prices, I believe now is an excellent time for local investors to buy these two outstanding growth businesses.

Let's review my investment thesis for each company.

AMAZON (TICKER: AMZN)

Some readers may recall that in 2016 I recommended Amazon in this column. Since then, Amazon has averaged a 25% annualized return, about 2.5 times better than the Dow Jones Industrial Average.

And I am recommending it again today.

Amazon shares peaked late summer of 2021 and have fallen more than 30% since. This largely can be attributed to the company spending a significant amount of money during the pandemic to keep up with e-commerce demand. In fact, Amazon more than doubled the size of its fulfillment network in just a year and a half.

By the way, if you haven't already, take a drive by Amazon's huge fulfillment and delivery facilities located in Liverpool and DeWitt.

The fact is, Amazon remains the undisputed leader in e-commerce, commanding nearly 40% of the online shopping market share in the United States. Amazon Web Services is also the leader in global cloud computing services, holding a third of the industry's market share. AWS provides servers, storage, networking, and security for large businesses, banking institutions, and government organizations.

Additionally, the company's advertising business is growing rapidly, bringing in nearly $40 billion in revenue each year!

While the company continues to face headwinds related to inflation, the supply

SEE INVESTOR'S EDGE, D4

Alphabet continues to invest in growth areas

Continues from D1

chain, and profit margins, I believe the market has priced a lot of this bad news in already, and the shares look quite attractive here for the long-term investor.

In fact, Amazon's shares are trading at their lowest price-to-earnings level in more than a decade.

I believe the impressive growth in Amazon's core businesses has not yet been reflected in the stock price and that shares could move significantly higher over the next year and beyond.

Buy it.

ALPHABET (TICKER: GOOG)

Like Amazon, Google's share price has declined from its 2021 highs as macroeconomic concerns and regulatory headwinds weighed on the outlook of Google's core advertising business. In the short run, Google faces challenges from rising interest rates, a possible recession, and antitrust pressures from the Justice Department.

In the long-run, I believe Google's business model remains intact. It dominates online search, digital advertising, and web browsing. It continues to invest in high growth areas such as YouTube, Cloud Services, smartphones, and autonomous driving.

Google has created an integrated online ecosystem for users to not only browse the internet, but integrate their online life via Gmail, Google Calendars, Google Docs, and YouTube. This keeps users coming back to use different platforms on a consistent basis and allows Google to successfully monetize its various content and offerings.

Site manager Irfaan Hafeez speaks about the sorting and shipping process at the Amazon Fulfillment Center during June's ribbon cutting ceremony. *Katrina Tulloch ktulloch@syracuse.com*

Google has been punished by this year's weak stock market, and I believe its shares (regardless of the split) are selling at a compelling valuation.

Google is selling at about a 21 price-to-earnings ratio at the time of this writing, well below the 26x multiple it traded at right before COVID.

For a business that continues to grow double digits each year and has a monopoly on technology platforms used by billions of users each day, I believe the stock is inexpensive and can be purchased by local investors.

Google and Amazon are superb, ubiquitous companies with a long runway for future growth and, again, both are more than 20% off their highs.

So, for local readers who have hesitated on buying either Amazon or Google because of their high share prices, you now have a superb opportunity to get in!

Enjoy the rest of your summer.

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at jburns@jwburns.com

J.W. BURNS & COMPANY, INC.

INVESTMENT COUNSEL

Important Disclosure Information

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by J.W. Burns & Company, Inc.), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from J.W. Burns & Company, Inc.. Please remember to contact J.W. Burns & Company, Inc., **in writing**, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services. J.W. Burns & Company, Inc. is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the J.W. Burns & Company, Inc.'s current written disclosure statement discussing our advisory services and fees continues to remain available upon request.