Apples and Oranges (And Microsoft)

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Investing

Hindsight can drive an investor nuts. Many, for example, have probably imagined where they would be today if they'd had the foresight (or good fortune) to snatch up shares of Microsoft or Apple back when the technology titans were just new kids on the block. The numbers are staggering: A $10,000 investment in Apple stock 25 years ago would be worth more than $950,000 today. A $10,000 investment in Microsoft? Try more than $2.8 million. And if you'd really bet big on Microsoft or Apple back then--well, there might be a private island somewhere with your name on it.

But while it's easy to slip into "woulda-coulda-shoulda" thinking, don't beat yourself up too much. For one thing, you're far from alone. Hindsight is always 20/20, and the list of those who bet on Apple and Microsoft two and a half decades ago is quite short. Many of those who did probably didn't think the companies would become so wildly successful.

More important, every minute spent playing the hindsight game is a minute that you're not focusing on how to make money today. Instead of asking yourself why you didn't buy Microsoft or Apple when they were starting out, the more vital question is, what are these stocks going to do in the coming years?

I recently posed this question to my "Guru Strategy" investment models, each of which is based on the approach of a different Wall Street great. The response: While you shouldn't expect these popular stocks to make the 100- or 200-fold increases they've made in the past 25 years, Apple and Microsoft are still good bets today--albeit for very different reasons. In fact, the two tech powerhouses offer an intriguing study in both growth and value investing.

Let's start with **Apple (AAPL, 350)**, which is one of the most impressive growth stories of the past decade. Ten years ago the firm was posting negative earnings per share. Since then it's been on a tear, with EPS hitting a new high of $15.15 the last fiscal year. That sort of growth gets the attention of the strategy I base on the writings of legendary investor Martin Zweig. He ran a very successful newsletter and mutual fund in the 1970s and 1980s and was a regular on the granddaddy of market shows, PBS' *Wall Street Week*.

In his approach to stock picking Zweig didn't want earnings to just be growing; he wanted the rate of growth to be accelerating so that you weren't getting in on the tail end of a company's growth. My Zweig-inspired model (based on his 1986 book, *Winning on Wall Street*) looks at EPS growth over several different periods, and it likes what it sees with Apple. The firm upped EPS by 92% last quarter, which was significantly higher than both its long- and short-term growth rates.

Zweig also said earnings growth should be driven by sales, not by one-time gains--and not padded by the use of excessive debt. Apple's long-term sales growth is an impressive 37%, and the firm has no long-term debt.

While Zweig uses a growth strategy, it isn't blind to valuation. He focused on stocks with price/earnings ratios no more than 3 times the market average and never more than 43. Apple's shares trade for 16.7 times trailing 12-month EPS.

While exceptional growth and a reasonable valuation are what make Apple appealing, the Microsoft story is one of consistency and excellent value.

My Warren Buffett model looks for firms with lengthy histories of persistent--but not necessarily eye-popping--earnings growth, manageable debt and high returns on equity. Microsoft's EPS has increased in all but two years in the past decade, and it has more than twice as much in annual earnings ($29.6 billion) as long-term debt ($9.7 billion). It has also averaged a 27% return on equity over the past ten years.

Of course, price is a huge piece of Buffett's approach, and **Microsoft (MSFT, 25)** trades at about the same levels it did nine years ago. Investors have flocked to hotter growth stocks like Apple and Google . Microsoft hasn't been growing as much as its flashier peers, but its growth has been decent, and it trades for only about 11 times trailing 12-month EPS. Plus, it's paying a 2.4% dividend yield. Microsoft is a Warren Buffett-style buy in my book.

People like to pit Microsoft against Apple because of the rivalry between the products they sell, but it is really an apples-and-oranges comparison for investors. It all depends on if you have a value or growth orientation. As an investor who looks for both plays, I know there's plenty of room for these two stocks in my portfolio.

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