

ANNEX BULLETIN

Annex Bulletin 2007-44

November 28, 2007

An OPEN CLIENT edition

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INDUSTRY TRENDS

Updated 11/28/07, 9:00AM MST

Analysis of Institutional Shareholdings of Top 10 IT Companies

Microsoft Still Wall Street Darling

But Oracle the Most Popular with New Investors

IBM, EDS, HP - Least Popular; Big Owners Take Profits, Reduce Their Holdings

SCOTTSDALE, Nov 28 – Microsoft is still Wall Street's high tech darling, but Oracle is the most popular new investment target of the Top 10 IT companies (in terms of market cap), closely followed by Apple, EMC, Google and Intel.

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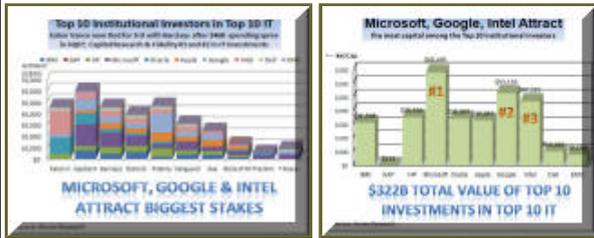
Meanwhile, Apple, EMC and Google - in that order - have already experienced big surges in their stock prices since a year ago (up 92%, 41% and 38% respectively), while Oracle and Intel shares are currently trading only 5% and 7% higher than in last December. Maybe that's why they look more attractive as new investment targets?

In an unrelated news, Oracle's CEO exercised options for 1 million shares of common stock, according to a SEC filing Monday (11/26/07). Larry Ellison (right) reported that he exercised the options at \$4.18 apiece, and also sold two million shares on Friday and Monday for \$20.02 to \$20.23 each. We estimate, therefore, the proceeds to be worth about \$32 million to Ellison in pretax gains.



The stock sale was conducted under a prearranged 10b5-1 trading plan which allows a company insider to set up a program in advance for such transactions, and proceed with them even if he or she comes into possession of material non-public information. So we would not read too much into the move.

Meanwhile, back to our research study, at the other end of the scale, IBM, EDS and HP - the three oldest "IT establishment" companies among the Top 10 leaders - seem to be the least appealing to institutional investors. And Dell and SAP are the only ones among the Top 10 whose shares are actually down slightly (-2%) since a year ago.



Overall, the Top 10 IT companies' market cap is \$1.3 trillion, up 18% in the last 12 months (see above charts). And the biggest new factor in the third quarter's trading action was [Eaton Vance](#). This 83-year old Boston-based investment banking firm has made some huge bets in the high tech sector that changed the ownership landscape in at least six of the Top 10 companies. Emerging practically out of nowhere, after placing about a \$46 billion IT bet on the table in the third quarter, the company is now tied with Barclays as the third largest high tech institutional investor (see left chart above).

Eaton Vance has plunked about \$20 billion into Intel, \$14 billion into Oracle; \$4.8 billion into HP; \$3 billion into Google; \$2 billion into Dell, and \$1.2 billion into EMC. But market being what it is - a conglomerate of diverse opinions - a number of other institutions went the other way, reducing their holdings in these companies during the same period (though none matched the extravagant bullishness of Eaton Vance).

Microsoft, Google and Intel are the top three investment choices of the Top 10 institutional investors in the high tech sector (right chart above).

The preceding are some "big picture" conclusions that we reached after an exhaustive analysis of the latest top institutional holdings of the Top 10 IT companies (as of 9/30/07, which we then combined with the current market cap data). Thousands of figures have been reduced to a few words. Guess that's why they say "picture's worth a thousand words?"

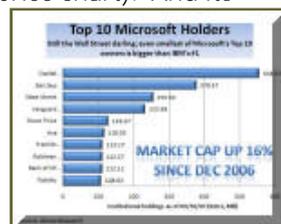
Finally, for our market forecast, click on ["Quo Vadis," Wall Street?](#)

"Establishment" Companies

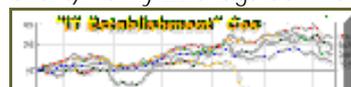
1. [Microsoft](#)... Confirming its top billing as still a "Wall Street high tech darling," Microsoft shares outperformed those of the two bigger "establishment" companies - HP and IBM - in the last six months (left price chart). And its



market cap since a year ago is also up 16%, attesting to its continued allure to institutional investors (right chart). After all, there are only so many large cap companies where giant financial institutions can park their money. And Microsoft is clearly one of them.



But even the top three "IT establishment" companies, HP, Intel and IBM, have outperformed the market in the last 12 months (right price chart). Only EDS lags behind both the market and its elder competitors... quite a bit behind, as you can see.



[here\]](#)

[Strong Finish to Great Year - Analysis of Accenture's 4Q results \[Annex clients click here\]](#)

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[Profitable Growth Continues - Analysis of HP's 3Q business results \[Annex clients click here\]](#)

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[Per Ardua Ad Astra - Analysis of HP's 2Q07 business results \[Annex clients click here\]](#)

[The Greening of Big Blue IBM to spend \\$1 billion c](#)

At \$319 billion, Microsoft tops all other IT firms in terms of market cap. And its top shareholders have been generally pretty loyal in the third quarter, the latest period for which the SEC filing data has just become available (left chart). Four of the Top 10 reduced their positions, other added to them. Why mess with a winning strategy, seems to be their general message.

2. HP... Hewlett Packard's stock price appreciation has been in the same range as Microsoft's (up 17% since a year ago), but its top holders seem to have concluded that the stock may be peaking. Nine of the Top 15 have reduced their positions, countering the bold \$4.8 billion move into the stock that Eaton Vance executed in the third quarter.



In an unrelated news, the HP CEO, Mark Hurd, exercised options for and sold 100,000 shares of common stock



under a prearranged trading plan, according to SEC filings Monday. In Form 4s filed with the SEC, Hurd reported he exercised options for the shares last Wednesday for \$21.73 apiece and then sold all of them on the same day for \$48.80 to \$49.90 each. As in Oracle CEO's case, the sale was executed under a prearranged 10b5-1 trading plan.

3. IBM... Big Blue's shareholders' loyalty to the company is certainly being put to a test. The stock is up only 1% since a year ago, which in comparison to other leading IT investment opportunities is a meager return. As you also saw from our above new/sold out "stock appeal" index, IBM seems to be the least appealing investment target for new money among the Top 12 IT firms we have analyzed.



Such attitudes do not match up with the company's sound fundamentals, and the improving profit margins. So we think that the institutional shareholders' loyalty and patience while waiting for sunnier days will be



rewarded in the long run. As we said a year ago, and reaffirmed it again this weekend in a Barron's story (see "[Credit Crisis Creates Bargain in IBM](#)," Nov 26), we believe that IBM is worth about \$125 per share, relative to the stock prices of its major competitors. And sooner or later, Wall Street does tend to get it right. In IBM's case, "later" appears to be more likely than "sooner."

4. Intel... Intel's shares appreciated moderately in the last 12 months (up 7%). But that was enough to propel the company to the #4 ranking in the industry with a market cap of \$146 billion. And the company's future evidently appears bright to some investors, like Eaton Vance, that made that huge \$20 billion Intel bet in the third quarter.



So overall, there is a lot more upside than downside sentiment evident in the institutional holders' moves.



Newcomers: Google and Apple Reinc(arnated)

5. Google... Ah... what do you say about a stock like Google in one breath, without

"going green"

[Are We in "Buyback Bubble?"](#) - Analysis of corporate stock buyback trends

[IBM: Lowering Center of Gravity](#) - Highlights of Partnerworld 2007, with Detailed Reports for clients

[Growth Accelerating](#) - Analysis of Caggemini's 1Q07 business results [Annex clients click here]

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exhaling or popping a tonsil? "Amazing!" - is the first thing that came to this writer's mind. It's been an amazing upward ride during the last three years (see "[Googling Its Way to Top](#)," Oct 2007). The stock has risen 38% in the past 12 months alone. As a



result, Google is now that the second largest IT company in the world based on market cap. Yes, it is even bigger than IBM, HP or Intel, all of which have been in the computer business for at least four decades or longer; IBM for nearly a century.



2006 business results [[Annex clients click here](#)]

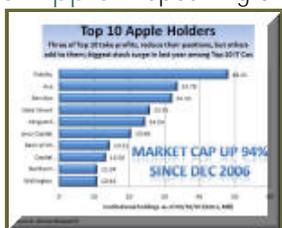
[HP: Toward New Highs?](#) (Excerpts from analysis of HP's 1Q07 business results) [[Annex clients click here](#)]

[Capgemini Caps Great Year, Saves Best for Last](#) (Analysis of Capgemini's fourth quarter business results)

[EDS: On Sunny Side of Street](#) (Analysis of EDS' fourth quarter business results)

Which, of course, makes for a lot of giggling Google shareholders, as well as some new money streaming in. And not just from the big Eaton Vance bet. Two-thirds of the Top 15 Google institutional holders actually added to their positions in the third quarter (see the charts).

6. Apple... Speaking of happy shareholders, probably none can match the joy of those institutional holders who hung on their Apple share in the last 12 months. The company's market cap surged 94% to a cool \$150 billion, practically tying with Intel for the #4 spot in the industry.



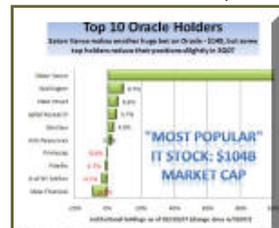
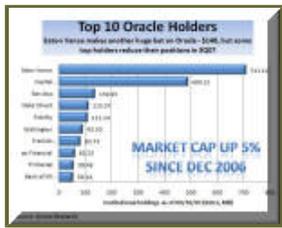
[CSC: Where Less Seems More](#) (Analysis of CSC's third quarter fiscal 2007 business results)

[Fujitsu: Sales Up, Profit Down](#) (Analysis of Fujitsu third quarter fiscal 2007 business results)

The top three Apple holders took some profits in the third quarter, but many others poured new money into the stock, more than offsetting these declines.

The Rest: Oracle the Most Popular, EMC Also Strong

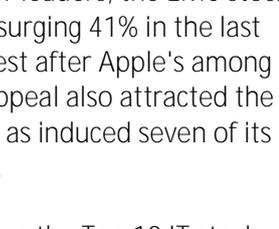
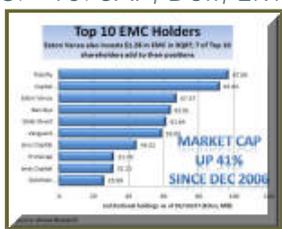
7. Oracle... The third largest software company (after Microsoft and IBM Software) was the recipient of the second largest infusion of capital from Eaton Vance in the third quarter. With about \$14 billion coming from a single investor, the Oracle averages tend to be somewhat skewed. Some top holders did reduce their positions, but the majority added to them, making Oracle the most popular top IT stock on Wall Street at the moment.



[IBM Stock Passes Century Mark](#) (Analysis of Big Blue's Stock Performance)

[Happy Days Are Here Again](#) (Analysis of Top 2 IT leaders' latest stock market and business performances)

8. - 10. SAP, Dell, EMC... Among the remaining three Top 10 IT leaders, the EMC stock performance has also been a standout, surging 41% in the last 12 months. That makes it the second best after Apple's among its top industry peers. The EMC stock appeal also attracted the big Eaton Vance capital infusion, as well as induced seven of its Top 10 holders to add to their positions.



["Excellenture" Excels Again](#) (Analysis of Accenture's first quarter fiscal 2007 business results) [[Annex clients click here](#)]

[Hedging the Bets](#) (Analysis of latest institutional shareholdings of leading IT companies: IBM, HP, Accenture, EDS, CSC, BearingPoint, ACS, Perot) [[Annex clients click here](#)]

Which leads us to the two laggards among the Top 10 IT stocks - Dell and SAP. They are the only ones whose market cap actually shrank slightly in the last 12 months (down 2%). While the SAP ownership among the U.S. institutions is pretty thin to be able to draw any meaningful conclusions from it, the reaction of the Dell shareholders has



[Globalization Accelerate](#) (Analysis of United Nation's annual survey c

been mixed. Some added to their positions, others reduced them. The company certainly got a \$2 billion-vote of confidence from Eaton Vance in the third quarter.

"Quo Vadis," Wall Street?

Where to from here, Wall Street? Roll the dice. Get out your dart set. Flip a coin... We can depend on all these proven "scientific" methods of predicting the markets as much as on fancy computer models based on statistics and logic. This is no time for rational behavior.

Take what happened this morning, for example. The market's opening was marked by two dominant news items.

First, "with demand for high-technology goods weakening, orders for U.S.-made durable goods fell for the third straight month in October, falling 0.4%, the Commerce Department reported Wednesday," according to the Dow Jones' MarketWatch wire.

Wall Street's response? "Technology stocks lead the market rally of over 120 points this morning," CNBC broadcast stated about half an hour into the day's trading.

Second, sales of existing homes fell sharply (down 20.5%) in October, "driving the supply of homes to the highest level in 22 years," the National Association of Realtors reported this morning.

Wall Street's response? Pushing the rally even further. As we write this (10:45AM in New York), the Dow is up 240 points, double that at the start of the morning rally. And all that comes on the heels of a 215-point jump yesterday. One ostensible reason, we are told, is that investors are hoping the bad news would force the Fed to cut interest rates.

The third news item was actually also a market response. The U.S. dollar was up this morning against all major currencies. You would think that if the Fed were to lower the rates, the dollar would be weaker, not stronger?

Oh well... See what we mean about using those "scientific" forecasting methods in figuring out the next market turn?

We've been saying for over a decade now that gambling on Wall Street has become like playing Las Vegas in pin-striped suits (see "[Dancing 'Round the Golden Calf](#)," Washington Times, Aug 1997; "[Wall Street Boom, Main Street Doom](#)," Chronicles magazine, Oct 1998, among other articles). The only thing new and different since 1997 is that this game of crapshoot is now being played with tens of billions of dollars, as you saw from the Eaton Vance example, instead of with "just" hundreds of millions.

So if you're a small player in this roller-coaster market, get out if you can before Wall Street behemoths roll over you. Or else, if you're already in it too deep, close your eyes and pray for a safe landing. And next time you feel that gambling itch coming on, go scratch it at the Las Vegas casinos. At least the stakes are much lower...

Happy bargain hunting!

Bob Djurdjevic

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[Capgemini: Longest Sustained Stock Price Rise \(An update to "By Leaps and Bounds"\)](#)

[HP: New King of the Hill \(Analysis of HP's fourth quarter business results,](#)

[IBM: From Little Acorns Mighty Oaks Grow \(Analysis of IBM's "State of the Union"\)](#)

[Capgemini: By Leaps and Bounds \(Analysis of Capgemini's preliminary third quarter business results\)](#)

[Fujitsu: Good Performance Gets Better More Global \(Analysis of Fujitsu's first half FY200 business results\)](#)

[IBM: A Slam Dunk Quarter \(Analysis of IBM third quarter business results,](#)

[Accenture's Emphatic Year-end Accents \(Analysis of Accenture's fourth quarter results\) \[Annex clients click here](#)

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[IBM vs. HP: A Tale of Two Blues](#)
(Both companies & doing well in business, b only HP is favored by W Street; Big Blue trying to change that now with it new "India Opus") [Annex clients click here]

[Go East, Young Man!](#)
(A speech delivered in St. Petersburg, Russia, May 25, 2006; click here for slides)

[IBM 5-Yr Forecast: Steady As She Goes](#)
(Emphasis on quality continued) [Annex clients click here]

[Octathlon 2006: Accenture Again Wins "Gold!"](#)
(HP gets "Silver," IBM "bronze") [Annex clients click here]

