



## The Battle for Market Share

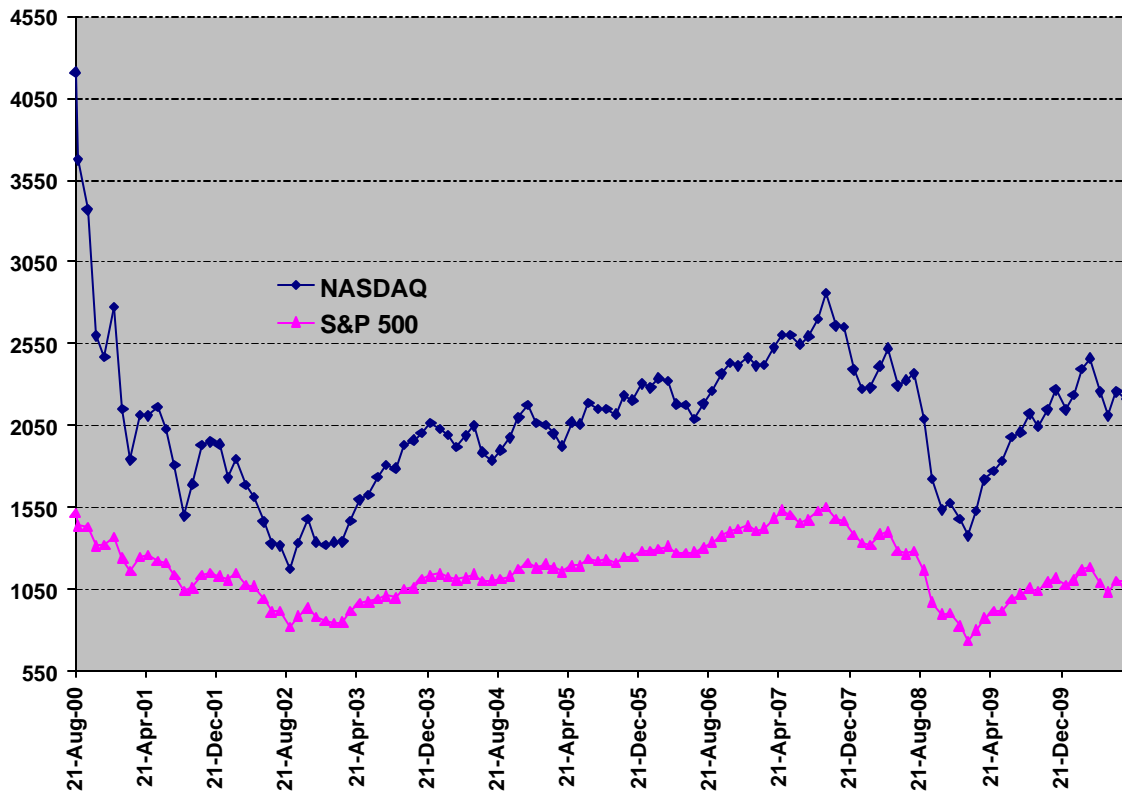
The US economy continues to battle against high unemployment and a still struggling housing market as consumer spending remains depressed by low income and little to no growth in wages and salaries. US GDP growth expanded at an annual rate of 2.4% in the second quarter, down from a rise of 3.7% in the first quarter which created mixed feelings in the market. While slower growth points to continued trouble in the economy and a delay in a full-fledged recovery, it does mark the fourth straight quarter of growth, a sign the economy is still on a recovery path.

Investor's concern over the timely recovery in the US has been reflected in the stock market which continues to react strongly to every economic statistic that is released week after week. The week following the release of the GDP data, the S&P 500 which is composed of 500 of the most actively traded large-cap common stocks in the US dropped 0.37% to end the week at a level of 1,121.64 basis points. In addition to economic fundamentals, mixed earnings reports from companies of different sectors also have an impact on the stock market.

Deciding in which stocks to invest and when, varies from individual to individual as each may have different reasons. Some may choose to buy stocks based on the fundamentals of the company, or because of 'hear-say', as everyone else is buying it (herd mentality), and the stock is popular.

With demand at all time lows in economies across the globe, one can argue that the competition among companies and their fight for market share is further heightened as consumers grow more wary of how their money is spent. One such product, where there is a fight for market share is the mobile and smartphone where consumers seem to be almost defined by either choosing to send a blackberry message or downloading the latest app. i.e. A Blackberry or the Apple iPhone.

Chart 1: NASDAQ vs. S&P 500

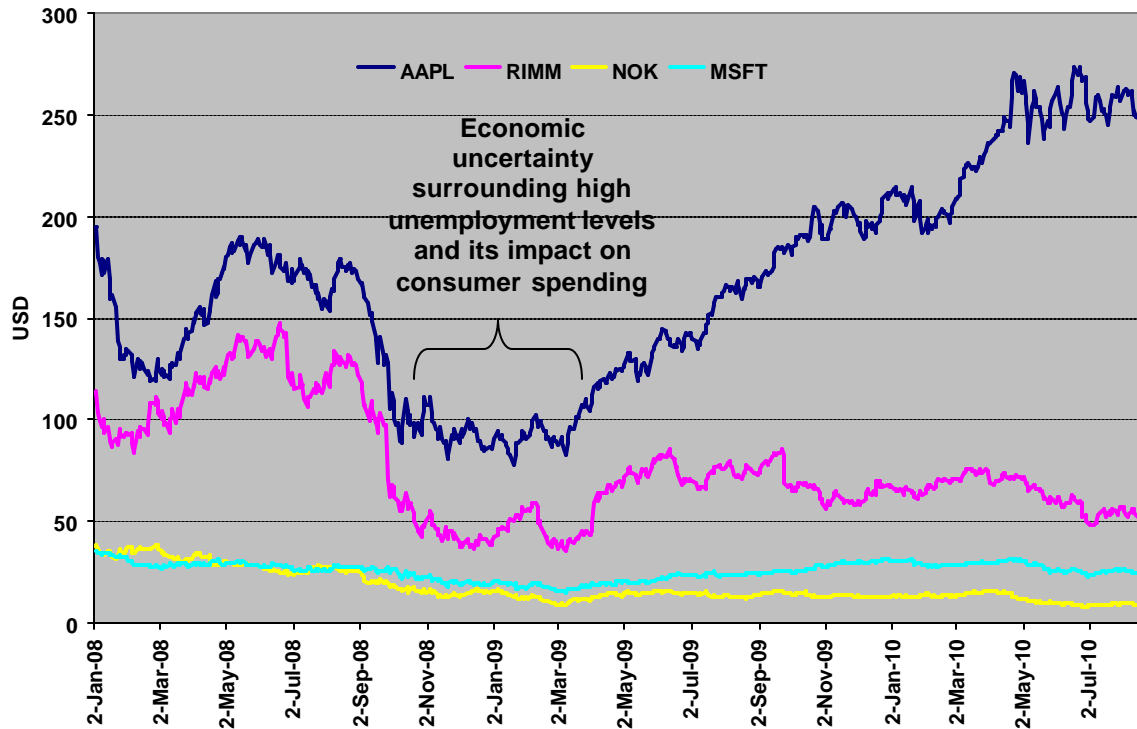


	YoY Aug 2010	Q110	Q210	YTD 2010
S&P 500	10.56%	-12.11%	-11.86%	-1.88%
S&P Info Tech Sector	14.74%	1.67%	-12.46%	-8.20%
NASDAQ	13.28%	-25.51%	-12.04%	-2.36%

Source: Yahoo Finance, CMMB Research Center

Looking at mobiles and smartphones, the main competitors are Research in Motion Limited (RIMM), Apple Inc. (AAPL), Microsoft Corporation (MSFT) and Nokia Corporation (NOK). AAPL, MSFT and RIMM all trade on the NASDAQ and account for a large weighting in the index while AAPL and MSFT both trade on the S&P 500. Year-on-year the S&P 500 and the NASDAQ are up 10.56% and 13.28% respectively while year-to-date, both indices are yielding relatively low but negative returns. The two stocks that trade on the S&P 500, AAPL and MSFT both belong to the S&P Information Technology Sector. This sector includes companies that primarily develop software in various fields such as the Internet, applications and the like as well as data processing and outsourced services. As at 18 August 2010, the Info Tech sector accounted for 18.48% of the index, the largest weighted sector on the index followed by the Financials sector. AAPL and MSFT are the second and third largest constituents on the S&P by market cap. With the largest weighting in the S&P 500 index, the performance of the stocks that make up the info tech sector will be a strong indicator of the overall index.

Chart 2



Source: Yahoo Finance, CMMB Research Center

From Chart 2, it is evident that the main competitors in the market over the last two years have been AAPL and RIMM. Let us take a closer look at these companies.

### Apple Inc. (AAPL)

Over the past two years, AAPL's share price has returned approximately 28.25% dipping in late December 2008 amid fears of a mounting economic slowdown. Rising job losses, falling house prices and tighter credit standards made consumers less likely to purchase electronics and led to a cut in estimates for iPhone and Macintosh computer sales by JPMorgan Chase and Co. Since reaching a low of USD78.20 in January 2009, AAPL's share price has increased by 250% to a high of USD274.07 in June 2010 on the news that it had received 600,000 pre-orders for the new iPhone 4, the most orders ever in a single day. Prior to the new iPhone's release, the Apple iPhone saw a decline in market share as other smartphone sales jumped 43% in the second quarter. The iPhone had faced heavy criticism from users when launched because of the phone's wraparound antenna design. Despite this, AAPL reported revenue of USD15.7 billion and net income of USD3.25 billion with record sales and earnings of all of its products except the iPod.

### Research in Motion Limited (RIMM)

RIMM's share price has not had the same fate as AAPL yielding a negative return of -55.62% on its price over the last two years. From Chart 2, we see a dip in the stock price similar to that of AAPL's amid the economic concerns but the rebound in price was not close to the recovery seen by AAPL. Since reaching a low of USD35.29 in March 2009, the stock has been trading between USD47.90 and USD75.94 band for 2010. This band is considerably lower than the high of USD147.55 seen

in June 2008 when the company gained strength on its expanding email niche and the increasing popularity of smartphones. At this point in time, RIMM was up 25% for the year while AAPL was down 12%. The outlook for RIMM is neutral as analysts believe that the recent launch of the new Blackberry smartphone will not be enough to delay the releases from Apple and the other competitor, Google.

Apple Inc., RIMM, Nokia and the more recent Google continue to battle for market share in an economy where consumer spending is at an all time low. Consumers fascination, especially in the US, for AAPL products, continue to drive the company's profits starting with the iPod in 2001, the iPhone in 2007 and the iPad this year. While each company has its own market share which increases and decreases as consumers decide on 'the next best thing', maintaining a sizeable profit margin and increasing stock price when investors choose to flee from equities into less risky assets, such as bonds, will be no easy task. . As with any technological device, the risk of failure to the product will always be present and will have a negative impact on the stock's price especially as smartphones become more complex to design.

Each company will continue to try to 'out do' the other in a bid to be at the top of the market by expanding their product base and venturing into new markets. Given the state of the US economy and the uncertainty surrounding its fundamentals, analyst's expectations and outlooks on each of these companies will have a strong impact on the stock price as investors grow more wary on where they invest their money. Investing in stocks is all about timing and taking advantage of buying stocks that are at all time lows, both internationally and locally, and can result in positive returns in the medium to long-term. Whether or not you have the heart to 'weather the storm' depends totally on the individual.

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## **FINANCIAL & ECONOMIC INDICATORS**

**As at 20 August 2010**

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	85.62	85.90
Euro	1.27	1.28
Jamaica	86.13	86.00
Guyana	204.40	204.90

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	73.46	75.74
Natural Gas (US\$/mmbtu)	4.28	4.38
Gold (US\$/Troy Ounce)	1,227.80	1,213.85

### **Eurobond Indices (As at 20 August 2010)**

JP Morgan EMBI+ (Basis points)	266
JP Morgan Central America and Caribbean Index (CACI) (YTD return %)	N/A

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
United States	0.25	0.25
Euro Zone	1.00	1.00
Japan	0.10	0.10
Brazil	10.66	10.66
Trinidad	5.00	5.00
Jamaica	8.50	8.50
Barbados	2.50	2.50

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	0.15	0.15
US 10-Yr Treasury	2.61	2.75
3-month UK Libor	0.72	0.74
Japan 90-day T-Bill	0.28	0.28
Brazil 90-day T-Bill	11.13	10.70
TT 90-day T-Bill	0.48	0.48
Jamaica 90-day T-Bill	8.32	8.32
Barbados 90-day T-Bill	3.29	3.29

*Sources: Bloomberg, J.P. Morgan, CMMB Research Center, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados*

## STOCK MARKET INDICATORS

As at 20 August 2010

### Local and Regional Headlines

- Sagicor records US\$23 million in six months
- Agostini's Limited issued to Victor E Mouttet Limited, 29,526,008 ordinary shares on 11 August 2010. This represents around 50.4% of the issued share capital of Agostini's Limited. Total issued share capital now stands at 58,583,349
- GHJ Annual/Extra-Ordinary/Special meeting to be held on 1 September 2010 at 4:30pm at the Guardian Corporate Centre

### International Headlines

- Stocks, U.S. Futures rise on earnings; Copper Gains, Bonds Fall
- Emerging market stocks advance for third day, led by consumer, industrial companies

Table 1: Regional Market Performance (as at 20 August 2010)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	818.02	0.20	-0.30	6.89	4.92
All Trinidad	1,154.57	0.26	-0.98	5.04	6.58
JSE Index	85,317.13	-0.82	0.14	2.39	6.42
JSE Select	2,211.28	-2.04	1.36	16.63	21.32
All Jamaica	80,178.86	-1.40	-0.70	12.93	20.49
BSE Composite	720.97	-0.16	0.35	-8.29	-14.53

Table 2: International Market Performance (as at 20 August 2010)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	1,071.69	-0.71	-1.09	-3.89	6.38
NASDAQ Composite	2,179.76	0.29	-1.92	-3.94	9.58
Dow Jones Industrial	10,213.62	-0.87	-0.16	-2.06	9.24
German Dax	6,005.16	-1.73	0.63	0.80	13.07
FTSE 100	5,195.28	-1.52	1.09	-4.02	9.22
Nikkei 225	9,179.38	-0.80	-1.30	-12.96	-11.60
Hang Seng	20,981.82	-0.43	3.54	-4.07	3.21
Eurostoxx	2,643.98	-2.39	0.64	-10.83	-0.74

Sources: TTSE, BSE, JSE, Bloomberg, CMMB Research Center

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