

>: What Do Our Readers Think of Google?

Monday, July 23, 2007 / Ben Schott

I'm going to take a break today from the usual format ... no interview, no editorial ramblings.

No, today I want to do something completely different.

The topic: Google (GOOG).

To some, the company can do no wrong, and enjoys a cult-like devotion the likes of Apple or Star Wars.

To others, the multicolored logo symbolizes a new evil empire. It's the next behemoth that everybody loves to hate.

But instead of telling you what I think of Google ? and, more importantly, what I think the future might hold for its stock ? I'd like to step out of your way and let you tell everyone else reading this right now what you think.

Why today?

If you need an answer to that question, then you must not have been watching the earnings news that came out this past Friday.

In a nutshell, Google's earnings disappointed, and the stock lost over 28 points ? more than 5% - on the day.

What I'd like to know is, in your mind, is Google a ?Buy? or a ?Sell? right now? Why? What about the business makes you optimistic or pessimistic? Is the stock overbought and overhyped, or is Friday's slide just a ?pause that refreshes??

You get the point. Just click on the ?Rate this Article? link below to post your comment.

To get your wheels spinning, here are a few takes from analysts and bloggers that are representative of the differing opinions on Google:

We hate to say we told you so, but, when it comes to Google's earnings miss: We told you so (OK, we were a quarter early).

In retrospect, the miss wasn't such a shock. Google's growth is slowing ? which makes sense, given its rapid expansion over the past few years. The trouble was that at the same time Google was cooling off, analysts were heating up, boosting forecasts into the stratosphere.

- Scott Patterson, The Wall Street Journal

Google IS the franchise player -- period. Sure the "perfection" of the story is gone for the moment and Wall Street will punish the stock on a near-term basis. The short interest is low at about 3% of the float, so a short-covering rally is not in the cards. But analysts and savvy investors will let the dust settle and let the fast money players who just got torched move out of the way, then begin to buy the stock.

If you have any kind of investment time horizon longer than a quarter -- Google is a buy -- plain and simple.

- Georges Yared

Google is more than search. It's YouTube. It's Gmail. It's maps. It's Blogger. It's Picasa. It's trying to become San Francisco's WiFi service. Plus, it's trying to replicate its success overseas in multiple languages.

Google may enjoy being the 800-pound gorilla, but it may be running into the same rough waters that Microsoft faced about crushing competition.

For example, Google's planned buyout of DoubleClick for \$3.1 billion dollars is being scrutinized by the Federal Trade Commission. Congress has also summoned Google to answer questions on Capitol Hill.

- David Louie, KGO News

I look forward to a lively debate. Just click ?Rate this Article? below and give us your two cents ...

Ben Schott

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Chief Investment Officer

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Wednesday, July 25

10:00 - Existing Home Sales (for June): Consensus 5.90M

Big Picture: Home resales reached a three-year low in March and a lower level in April. The weak sales pace left an 8.4 month supply of inventory -- a new cyclical high. But lower mortgage rates and prices help improve affordability and demand, as median prices have risen the last three months to leave an annual decline of just -0.8%. Existing sales include condos/coops which make up about 1/8 of the total. The National Assoc of Realtors expects existing home sales to bottom in the second quarter -- they may be too optimistic. The upturn will be slow as sub-prime foreclosures add to already bloated inventory.

Implications: The name speaks for itself -- this report provides a measure of the level of sales of existing homes. The report is considered a decent indicator of activity in the housing sector. Housing starts precede this report each month, but starts are a supply rather than demand-side indicator. Existing home sales precede the other key demand-side indicator of housing -- new home sales -- thus boosting the visibility of this report. Sales are highly dependent on mortgage rates, and will tend to react with a few months lag to changes in rates. Sales are also determined by the level of pent-up demand for housing -- immediately after a recession, sales are typically quite strong due to the demand which accumulated through the recession.

Thursday, July 26

8:30 - Durable Orders (for June): Consensus 2.0%

Big Picture: The durable orders release measures the dollar volume of orders, shipments, and unfilled orders of durable goods (defined as goods whose intended lifespan is three years or more). Orders are considered a leading indicator of manufacturing activity, and the market often moves on this report despite the volatility and large revisions that make it a less than perfect indicator. These problems can be minimized by looking at the breakdown of orders.

Implications: The total number is often skewed by huge increases in aircraft and defense orders. An increase based solely on strength in one sector tends to be discounted, while the market is more impressed with broadbased increases in orders.

8:30 - Initial Claims (for 7/21): Consensus 310K

Big Picture: Initial claims can be somewhat volatile, but the 4-week average has remained in a lower 300K to 320K range for eleven weeks after topping 330K in mid April. Aberrations are watched for clues on the labor market and economy, as the recent levels reflect an even tighter labor market. Continued claims are showing more lift than initial claims as the 4-week average nears the year and a half high of early March. Claims provide a nearly real time read on layoffs and the labor market as the low 4.5% unemployment reflects the broader read of layoffs and hiring.

Implications: Initial jobless claims measure the number of filings for state jobless benefits. This report provides a timely, but often misleading, indicator of the direction of the economy, with increases (decreases) in claims potential signalling slowing (accelerating) job growth. On a week-to-week basis, claims are quite volatile, and many analysts therefore track a four week moving average to get a better sense of the underlying trend. It typically takes a sustained move of at least 30K in claims to signal a meaningful change in job growth.

10:00 - New Home Sales (for June): Consensus 900K

Big Picture: The report indicates the level of new privately owned one-family houses sold and for sale. New home sales usually have a lagged reaction to changing mortgage rates. They also tend to be stronger early in the business cycle when pent-up demand is strong, and they fade later in the cycle as the demand for housing is sated. In addition to home sales, the market monitors the number of homes for sale relative to the current sales pace. As this inventory measure falls (rises), housing starts tend to rise (fall). Finally, the median home price provides an indication of inflation in the housing sector, though only year/year changes provide any meaningful information.

Implications: The home sales report is quite volatile and subject to huge revisions, making any one month's reading very unreliable. The report rarely prompts a market reaction. The market prefers the existing home sales report, which has a sample data pool four times as large and is released earlier in the month.

Friday, July 27

8:30 - GDP-Adv. (for Q2): Consensus 3.2%, Chain Deflator-Adv. (for Q2): Consensus 3.4%

Big Picture: Gross Domestic Product (GDP) is the the broadest measure of economic activity. Annualized quarterly percent changes in GDP reflect the growth rate of total economic output. The figures can be quite volatile from quarter to quarter. Inventory and net export swings in particular can produce significant volatility in GDP. The final sales figure, which excludes inventories, can sometimes be helpful in identifying underlying growth trends as inventories represent unsold goods, and a large inventory increase will boost GDP but might be indicative of weakness rather than strength. The broad components of GDP are: consumption, investment, net exports, government purchases, and inventories. Consumption is by far the largest component, totalling roughly 2/3 of GDP.

Implications: In addition to the GDP figures, there are GDP deflators, which measure the change in prices in

total GDP and for each component. Though the consumer price index is a more closely watched inflation indicator, the GDP deflator is another key inflation measure. Unlike CPI, it has the advantage of not being a fixed basket of goods and services, so that changes in consumption patterns or the introduction of new goods and services will be reflected in the deflator. With both GDP and the deflator, the market tends to focus on the quarter/quarter change.

10:00 - Michigan Sentiment-Rev. (for July): Consensus 91.5

Big Picture: The push to a two-year high in January was largely tied to the drop in gasoline prices, as equity prices have helped in recent months while gas prices turned higher. The fears surrounding housing and energy prices are being matched by the strong labor market and improved expectations for the economy. The University of Michigan survey, which is significantly smaller (500 phone calls, just 250 in preliminary) than the Conference Board's, includes a longer outlook (for expectations) as questions are focused on the household compared to the business heavy CB survey. The index far better tracks the consumers' mood than spending habits better indicated through interest rates and income growth.

Implications: The Michigan index is almost identical to the Conference Board Consumer Confidence index, though there are two monthly releases, a preliminary and final reading. Like the Conference Board index, it has two subindexes -- expectations and current conditions. The expectations index is a component of the Conference Board's Leading Indicators index.

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