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# Solving the Tech-Stock Puzzle

By Gregory Zuckerman

Investors on the hunt for tech stocks these days are finding themselves lost in the woods.

Some industry heavyweights, like **Apple Computer** (stock symbol: AAPL) and **Google** (GOOG), have been on a tear, with their stock prices soaring in recent months. But on the flip side, major players like **Cisco Systems** (CSCO) and **eBay** (EBAY) have reported financial results that have cast doubt on how strong their growth will be, serving to trip up their stocks.

How confusing have things become? On Thursday, the tech-laden Nasdaq Composite Index jumped about 1%, and shares of Apple continued their torrid run, fueled by strong sales of the iPod portable music player. But on the same day, Google shares tanked almost 3%—one of the company's worst days since its smashing debut on the stock market late last year—after an analyst lowered his rating on the company's stock. At the same time, **Yahoo** (YHOO) fell 2%. Both Google and Yahoo shares had been climbing amid excitement over the growing "paid search" business. But last week the market began fretting that companies have begun to curb spending on paid-search engines.

Despite such dangers, investors aren't ready to throw in the towel on tech, mainly because the sector remains full of enticing potential.

Parts of the tech business probably will generate faster profit growth than most other industries in the months and years ahead. But while many tech stocks have been beaten up in the past few years, they still trade at prices that look expensive. The average technology stock trades at a price of 60 times its expected 2005 earnings, much higher than the average price/earnings ratio of 16 for companies in the Standard & Poor's 500-stock index.

A big problem for the tech business: There are fewer hot, crucial products that companies, and individuals, need to buy. IPods are flying off the shelves, but few other products are as compelling to consumers or businesses. That's putting a damper on growth, and is why some strategists, like Ed Keon of Prudential Securities, have urged investors to shift a bit more to energy-related stocks, which continue to do well with oil prices climbing past $50 a barrel last week, rather than buying more technology stocks.

So what's the best approach to finding value in the challenging world of technology stocks?

Some analysts urge investors to focus on stocks that are reasonably priced, at least compared with other tech stocks, and that still promise impressive growth. Three tech stocks that boosted profits by at least 10% last year, and will again this year, and yet trade at price-earnings multiples of 30 or less are **Zebra Technologies** (ZBRA), **CheckFree Corp.** (CKFR) and **SunGard Data Systems** (SDS).

Zebra makes printers that make bar-code labels and is at the forefront of a new wave of bar-coding technologies called Radio Frequency Identification that some big retailers, like Gillette and Wal-Mart Stores, have begun to insist on. Its core bar-coding business is growing quickly as well.

Zebra's profit rose 39% last year to record levels, and earnings are expected to jump 17% this year, in part because many companies are still embracing bar coding. International expansion in places like China also could help. At the same time, more hospitals are using the advanced bar-coding technology to keep better tabs on patients and medicines.

Zebra's stock is trading at about 25 times its expected earnings for 2005, based on analysts polled by financial researcher Thomson Corp., not an unreasonable price to pay for this kind of growth, some argue. Other benefits: High profit margins and a business that makes it tough for competitors to gain market share.

Meanwhile, other tech firms like CheckFree, which provides the technology behind electronic commerce and bill paying, look attractive. The stock is up about 30% in the past year but so are earnings—they climbed 36% last year and are expected to grow 17% this year.

CheckFree, which counts Bank of America as a client, trades at about 27 times its 2005 estimated earnings, and both the company and analysts have been raising their estimates, a healthy sign.

SunGard may not be a household name, but it has carved a reputation on Wall Street as an aggressive supplier of software for large financial institutions like Citigroup. Earnings rose 12% last year and are expected to climb 11% this year, but the stock is down about 10% in the past year amid some concerns that growth is slowing. The stock is a relative bargain, some say, trading at about 16 times 2005's expected earnings.

"We continue to rate [SunGard] a buy," says Gregory Smith, an analyst at Merrill Lynch, who predicts "measured improvements" in revenue growth this year, and thinks the stock is undervalued. "We see little downside risk at these valuation levels," he argued in a research report.

What about marquee names like Google, Yahoo and Apple? They are riskier because they are more expensive relative to their expected earnings. If they can keep up the pace of growth, the stocks could continue to do well. But there's less room for error with these kinds of companies. After flying so high for so long, any whiff of weaker profits could send their stocks into a tailspin.

Apple trades at about 45 times expected earnings, Google trades at about 80 times earnings estimates and Yahoo is about 90 times future earnings estimates. These high multiples aren't scaring off everyone, however.

On Friday, Mark Mahaney, an analyst at American Technology Research, argued that recent nervousness about online-search companies like Google, Yahoo and **Ask Jeeves** (ASKJ) is unwarranted because his own research, unlike those of some rivals, suggests that these companies continue to see strong revenue growth of more than 10% lately. He has a "buy" rating on all three companies.

"The risk-reward now looks interesting" for Ask Jeeves, Mr. Mahaney argues, because the stock has fallen by about half since April of last year. "We'd be buyers in the low 20s and sellers near $30." But Mr. Mahaney is more cautious on online travel and entertainment giant **IAC/InterActiveCorp.** (IACI) in part because its profit margins in online-travel bookings have been declining, he says.

Thinking of investing in tech? Tell us what companies look good to you. Write: **forum.sunday@dow.com**

## Wired World

The tech business has been unusually confusing lately. Some big-name companies might be getting overpriced, while other lesser-known companies look like bargains. Here some potentially rewarding and risky stocks in the sector.

| COMPANY (TICKER) | PRIC. CLOSE | 52 WK. HIGH | 52 WK. LOW |
|---|---|---|---|
| **POSSIBLE BUYS** | | | |
| **Ask Jeeves** (ASKJ) | $22.68 | $44.66 | $19.53 |
| **CheckFree** (CKFR) | 38.13 | 40.76 | 24.56 |
| **IAC/InterActiveCorp** (IACI) | 22.61 | 34.62 | 19.16 |
| **SunGard Data Systems** (SDS) | 25.90 | 29.22 | 22.40 |
| **Zebra Technologies** (ZBRA) | 55.07 | 62.40 | 43.86 |
| **RISKIER BETS** | | | |
| **Apple Computer** (AAPL) | $88.99 | $90.88 | $22.83 |
| **Cisco Systems** (CSCO) | 17.20 | 24.83 | 17.13 |
| **EBay** (EBAY) | 42.24 | 59.21 | 32.40 |
| **Google** (GOOG) | 185.87 | 216.80 | 95.96 |
| **Yahoo** (YHOO) | 31.73 | 39.79 | 20.57 |

Source: WSJ Market Data Group

## Hotel Fees Breed Online

Next time you book a hotel room online, find out the total price of the stay—after taxes and fees—before choosing a site to complete the deal. Nightly rates may appear identical on different sites. But suddenly, right before you plug in your credit-card number, fees sprout as the online vendors take their cut. A recent price check for a five-night stay at Las Vegas's Bellagio hotel in March turned up a nightly rate within $5 of $327 on five major booking sites. Yet the totals were as much as $82 apart, from Orbitz.com ($1,786) to Travelocity.com and Hotels.com ($1,805) to Expedia.com ($1,844) and Vegas.com ($1,870).

**TIP OF THE WEEK**

The add-ons to the room rate were largely to blame. While Orbitz charged only $157 in taxes and fees, Expedia charged $209.

Many travel sites lump their commissions in with taxes, so that the rates appear identical to other sites when consumers simply scour for rates. Booking fees can vary greatly on the same site for different hotels, depending on the deals negotiated with the hotels, says Sarah Pascarella, a hotel expert for SmarterTravel.com, a travel-advice site for consumers. One site may charge you a $10-a-night commission fee to book one hotel but no commission for another. So don't assume one site will always be more expensive than another.

The hotel's own Web site may have better rates than major travel sites, because hotels don't charge booking fees and want to maintain customer loyalty, Ms. Pascarella says. Also, many hotels guarantee the lowest price. So if customers discover a better deal elsewhere they can get a refund from the hotel. "The best thing for a consumer to do is just compare and compare and compare," she says.

*By Kelly K. Spors*

## INVESTOR'S CALENDAR

### THIS WEEK

■ **Martha Stewart Goes Home:** Martha Stewart is set to be released from prison and begin five months of house arrest, in which she will be allowed to work again. Her company's shares have more than tripled since her conviction for lying about a stock sale, and she is now preparing to star in a new version of "The Apprentice."

■ **Jobs Report:** The February unemployment report is the big economic event to watch out for Friday. Job growth was weaker than expected in January, but weekly unemployment claims have dropped to a four-year low in February, indicating the jobs picture is improving.

■ **Auto Sales:** Auto makers will be hoping their February sales figures, due out Tuesday, are better than January's. Sales plunged in January from the strong discount-driven numbers reported in December.

■ **Earnings Reports:** It's a quiet time now for earnings, but a couple of big companies reporting this week are insurance giant **Marsh & McLennan** on Tuesday and discount retailer **Costco** on Wednesday.

■ **Greenspan Speaks, Again:** Federal Reserve Chairman Alan Greenspan testifies to the House Budget Committee on Wednesday. He's already made headlines—and affected the market—recently with comments on monetary policy, the housing market and Social Security.

■ **Social Security Tour:** Top Bush administration officials are fanning out across the country to sell their plan to overhaul Social Security.

Treasury Secretary John Snow, who visits Arkansas and Louisiana this week, said the administration still had work to do to convince people, but vowed "to hit this hard."

### IN THE MARKET

**A 52-WEEK SLIDE:** Stocks in the Dow Jones Industrial Average appear to be holding on to recent gains and not falling back to last year's lows.

### LAST WEEK

■ **Stocks Rebound:** Stocks managed to finish the week in the green after a rough trading day on Tuesday. The Dow Jones Industrial Average tacked on 0.5%, and is up 0.5% so far this year. The Nasdaq Composite Index gained 0.3%, but is still down 5.1% year to date.

■ **Growth Gets a Boost:** The economy grew at a 3.8% annual rate in the fourth quarter, a revised report showed, as the trade deficit caused less of a drag than earlier thought. The initial estimate had been 3.1%.

■ **Battling for MCI:** Qwest made a revised offer for MCI in hopes of scuttling an agreement with Verizon. The new cash-and-stock bid, for about $6 billion, promises a quicker payout to MCI holders and protection in case Qwest shares fall in value.

■ **Briefly: Consumer prices** in January rose 2.3% from a year earlier, the fastest annual rate of "core" inflation since mid-2002... **The dollar plunged** Tuesday amid reports that South Korea planned to sell its dollar holdings, but recovered later in the week as the reports were denied... **CEO bonuses** surged 46% last year to a median of $1.14 million at 100 big U.S. companies, the highest level in about five years.

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