Creative Global Investments

Apple Inc. (Nasdaq: AAPL $92.69) SELL

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Objectivity

Integrity

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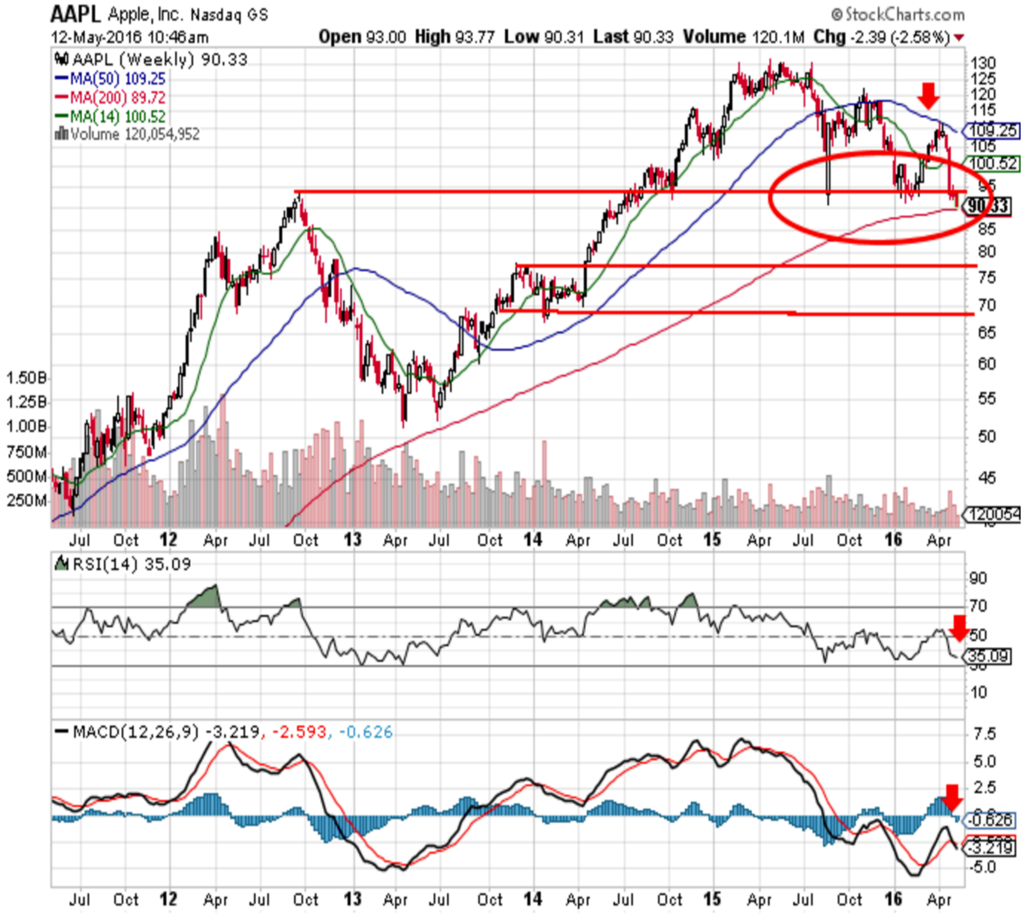
Apple is down about -25% in the past 12 months, and -13% since Apple's earnings miss. Shares in Apple fell sharply after it announced Q2 results on April 26th, showing a first drop in revenue in 13 years as iPhone sales dropped for the first time ever.

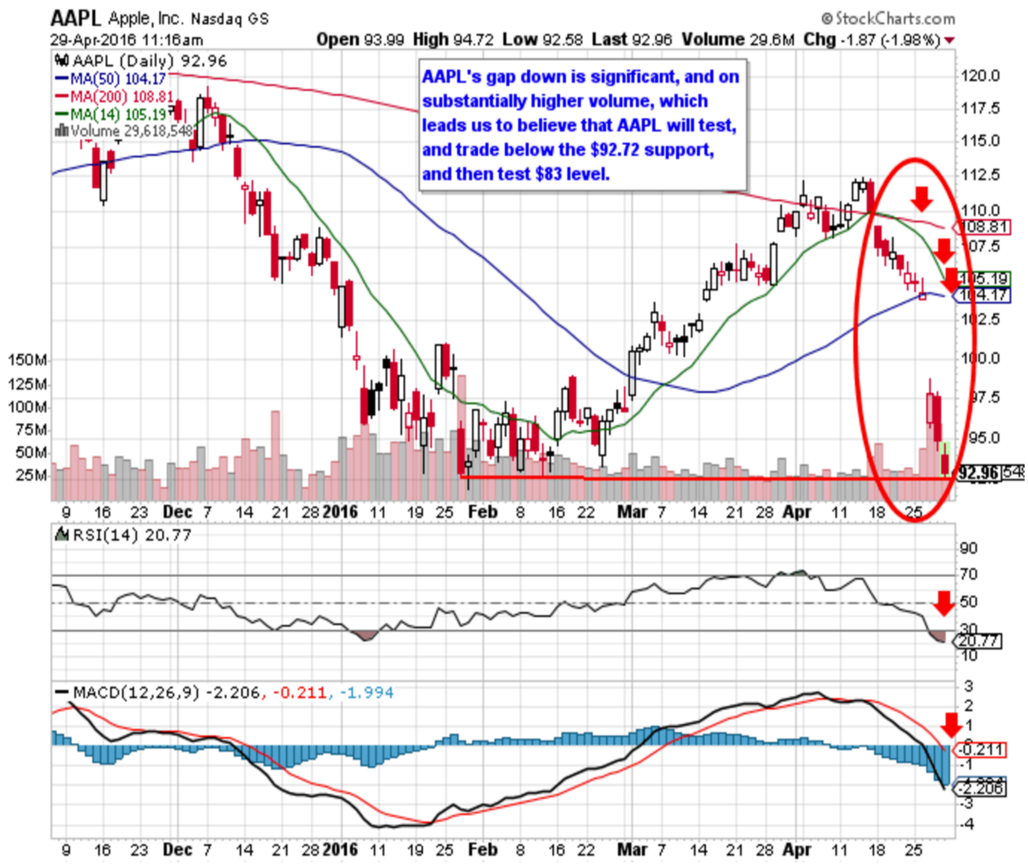
AAPL closed below its 200-week moving average for the first time in more than seven years. AAPL now has broken the long-term support of $93,72, just as we were forecasting when it disclosed quarterly results two weeks ago, and is trading below $91 at the time of this writing. Despite increasingly bearish brokerage notes following earnings, analysts strangely have remained largely positive on AAPL stock, with 83% maintaining a "buy" rating. Short interest is still low, representing less than 1% of the equity's available float. With the break below the pivotal level of support at $93 we are expecting to see an escalation of selling pressures.

The short-term technical outlook for AAPL is negative, RSI and MACD are negative, and so are the 14-day, 50-day and 200-day moving averages. The head-and-shoulders topping pattern that became confirmed upon the break below the neckline around $107 had a first downside target of around $83, however, inherently increasing risks are for AAPL to test support at the open gap charted two years ago of $71.



Let's remember one important chart-technical observation:

"Gap-downs golden rule"! Gaps are a significant technical development in price action and chart analysis, and should not be ignored. Gaps can offer evidence that something important has happened to the fundamentals or the psychology of the crowd that accompanies this market movement (which we highlighted this on April 29th in the chart below).



Volume in AAPL did pick up significantly the past 12 days, and not only due to Mr. Icahn having been on the wrong side of the breakout and needing to sell AAPL. The volume did not happen until the gap occurred, which is an additional negative. This means that the new change in market direction has a good chance of continuing. The point of breakout now becomes the new resistance. Investors should not fall into the trap of thinking this type of gap associated with good volume, will be filled soon. It could take a long time, as much as 9 months sometimes.

So, while the AAPL stock may appeal attractive to some investors at current levels, the usual 9 months it may take for a renewed directional change is a long time, considering the fragile stage the global and US economy is in, besides political risks and uncertainties rising (June 23rd UK/EU referendum, US Presidential election) and we think that investors are to best sell and avoid exposure in AAPL, and wait for better and timelier opportunities to re-enter AAPL when "the dust has settled".

The additional negative of the past 2 weeks, the fact that Carl Icahn sold his stake in Apple triggered another sell off with increasing volume and weakness in Apple. Mr. Icahn said that he is no longer a shareholder of the company, citing China among the factors that warranted booking profits in the tech titan following a substantial rise in the stock over the past few years.

Really, China? Really? Come on, wow, that is a lot of arrogance to think that investors would simply believe that that was the reason why Mr. Icahn & team were ever to drop their interest in Apple stock.

We do not buy the “weak China argument” for one second. But we believe the reasons for Mr. Icahn getting out of his position in AAPL is of a much different concern.

We believe that Mr. Icahn thought that by “parking” his and his investors’ money for a short-term within AAPL stock, he could subsequently arm-wrestle Apple’s board to dish out a big part of the $216BN cash pile to “investors.

Well, that strategy did not work. Just as we predicted in 2014 it would not. We do not think for a minute that Mr. Icahn invested into AAPL because of the Chinese growth prospects, so we have a hard time to believe he is selling AAPL now because of the lack thereof, but rather as he had to come to accept like all other AAPL shareholders, that that cash is for many reasons (not only due to most of the cash being held abroad and related complicated tax reasons) “not to be had that easily”, which leads us to conclude, like we did before, that any investors buying into AAPL shares for its huge cash pile should seriously reconsider that investment rational.

Shares of Apple remain in a trend of declining performance relative to the S&P 500 Index, suggesting that this hedge fund favorite has lost the interest of the investor base that supported it, despite what continues to be a low-multiple stock.

Again, we see rising risks for AAPL to test the $71 level, as there are a lot of questions that value investors need to ask themselves with regard to Apple’s management a good understanding of the fast changing competitive landscape and consumer dynamics in lower cost emerging markets. Tim Cook has not convinced us, and seemingly an increasing number of investors, that he and his team have the right business understanding and strategy to continue to win the competition, as Apple used to, in those low purchasing power emerging markets over the coming years, and even if so, if they can execute it ultimately.

Apple Inc. is facing increasingly severe competition, not only on price, but also on innovation and quality, beside price. This is new, but not totally unexpected.

As we have been writing over the past three and a half years, since we initially downgraded AAPL in October 2012 for the first time, never in the history of software and technology companies has one hardware manufacturer been able to continuously keep a lead over the competition, and particularly not at industry leading high profit margins.

The barriers of entry for software and electronics OEM’s (short-product life cycle) are much lower than in long-cycle industrial or consumer products, and hence why we felt that although Apple Inc. about 6 years ago had an amazing product portfolio and pipeline, it was inevitable for the competition to seize the opportunity and capture market share of Apple and its products.

Particularly in emerging markets, where there is most incremental growth potential, at least from a total user perspective, one has to keep in mind that there are severe challenges when it comes to price and affordability.

This is where Apple Inc. was “too stubborn for too long”, and insisted that its product and service superiority strategy outweighed the risks of not gaining/losing market share to “lower” cost/quality producers.

And, that is exactly what opened the door for too many local producers, and low cost manufacturers to take them up on that challenge, and inherently be successful

The likes of Xiaomi, HTC, LG, OPPO, Huawei, vivo, and many others have been watching Apple’s formula to success and have been busily getting up to leading technological innovation and investing into critical mass in manufacturing and setting up distribution partnerships, and are now surely starting to eat Apple Inc.’s lunch in emerging markets, where spendable income is much lower, and where, to most new consumers, a $400 price differential for a smartphone really matters.

That innovation pipeline is looking mighty dry at the moment. Investors would be well advised to think about how Apple's new essential nature fits into their investing strategy. The sooner investors realize these shares have changed; the better off they'll be in the long run.

Apple needs to increase their R&D spend, which might fill up that empty pipeline and generate some consumer (and investor) excitement about the tech firm's future. That might temporarily bring AAPL shares back into being perceived as a highly innovative and high growth story.

Apple has more than an iPhone 7 challenge, it has several products in its portfolio, which have come of age, and where new or replacement products are going to have a cannibalizing affect on sales of existing and partially competing Apple products. The Applewatch for example.

The next generation Applewatch when released will likely give full mobility and data access, a function that currently is being offered by iPhone’s and iPad’s.

Question is going to be then, does a customer really need both iPhone, and/or iPad besides an Applewatch, which can give most of the data and services used?

With Apple Inc.’s growth rate decelerating, due to inapt product portfolio and pipeline, and possible product cannibalization, combined with its industry leading profit margins coming increasingly under pressure, we just do not see the rational for a global investor to feel they have to get on the most crowded trade bandwagon on earth and buy APPL shares today, or in the coming 6 months.

It seems tough to us, if not impossible, to believe that an investor could think they could generate alpha in a security, which is the biggest in market capitalization on earth, which now is included in every “benchmark” index, and which is the most profitable company on earth.

In our 33 years of advising top global institutional investors, and having dealt with C-level executives over that time, we have seen #1 ranked companies and stocks in many sectors continuously being challenged, and derailed and eventually being re-rated by investors.

We do not see any reason for Apple Inc. and its management and business strategy and stock to be any different. Apple Inc.’s leadership needs to put innovation ahead of financials, if not, there is no reason institutional investors should be investing now or in the next 9 – 12 months in AAPL shares

So, consequently we continue advising to reduce/sell AAPL stock, and advise investors to look instead for less mature companies in their product space and cycle, and in their business cycle and business strategy and implementation.

Longer term, investors and inherent returns for their clients money’s would be better invested in stocks that are also not in everyone’s portfolio yet, and that are not included yet in every index.

Do not take is wrongly, we still see Apple as a good company, and its products to continue to sell well in the premium segment market, however, the sales growth prospects in emerging markets have shrunk substantially over the past 18 months, and particularly for premium electronics manufacturers like Apple Inc. and in our opinion Mr. Cook and team need to change Apple Inc.’s business, products’ and pricing strategy in order to be able to capture that growth and less and less profitable business.

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