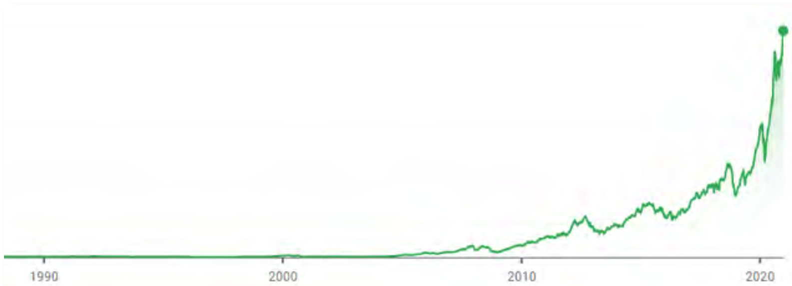
O.F.O. Partners

To my friends that own Apple

December 2020



In 1996, I bought an Apple clone that was built by Power Computing. Apple was dying, they were saying, but I disagreed. Apple's future would be bright. I was right, but it was mainly a brighter future for investors than for customers like me.

If I'd bought $10,000 of Apple stock, instead of a hunk of silicon, plastic, metal, and glass, my stock would be worth $6.7 million today. Oh well. My Apple clone became obsolete only a few years later.

My friends, on the other hand, are smiling. These are the Apple stockholders who call me and ask, "What should I do with my Apple?" These people have made money hand over fist. If they seem a little carefree, it's because they're having fun.

But don't have too much fun.

Apple, and a handful of other technology companies, have exploded in value this year. Investors now face the responsibility of thinking about what might come next. Don't let fear or greed distract you. Instead, make more of your own luck. Make some good decision while you're riding high.

The Day You Bought Apple

Think back to when you bought the shares. What was the plan? How did you define a good outcome? And how are those plans looking now? Have you revisited your theory about the company?

Now think of the immediate future. What would you do about a 25 percent increase in value? Would you be happier, or would you be more productive? What about a 30 percent drop in price? Would that put a dent in your plans? Your pride?

Big Numbers Mean Big Swings

Apple investors know the side-effects of compound growth. Day-to-day changes are magnified by the value of Apple relative to the other investments.

Let's go back to that $10,000 investment in 1996. A swing of 2 percent would mean a change of $200. No big deal. But if that $10k had become $6.7 million, then the 2 percent is more that $130,000. A bounce like that is twice the level of the average family income in the United States. That is a big deal.

Now pretend for a moment that you are Tim Cook, the CEO of Apple. He leads a company with market value of $2.3 trillion. A gain or loss of 2 percent is more than $43 billion – twice the median value of U.S. large-cap companies, and about the value of Pepsi and Walmart combined.

Ask yourself two questions.

1. Can Apple continue to create 2 percent of value every few months?

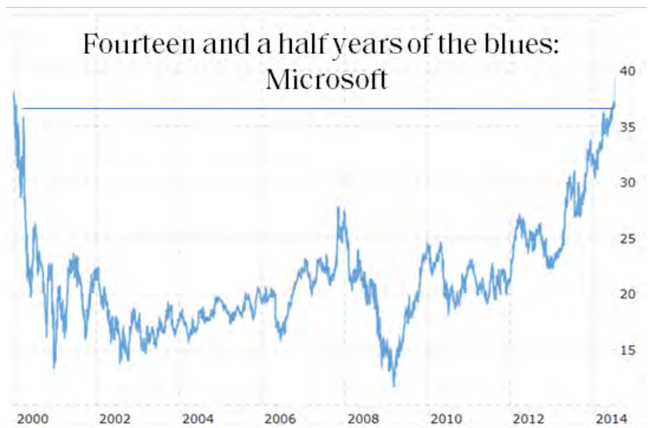
2. How are you prepared if it cannot?

The Horse before the Cart

When companies experience rapid share price growth, it can be a while before earnings come along in support. Expectations of better days often lead to disappointment. The euphoria fades.

Microsoft, in the 1990s, is a good example. In those days, increases in the stock price, and in profits, seemed unstoppable. At $37 per share, Microsoft shared at 66 times its profits. Nice neighborhood.

It didn't last. The dotcom bust, a recession, a war, and antitrust rulings deflated earnings. Microsoft's people showed their resilience, creating good products for consumers. Meanwhile, the stock lay dormant for a long while. 1999 buyers would not see their value restored for 14 years.



Source: macrotrends.net

An Apple a Day

No one can give advice to every prospector in Apple stock. People buy and sell 100 million shares every day. In a pandemic year, people bet that Apple and a handful of tech giants are the only ones who can flourish.

The good news is Apple is profitable. You can still depend on customers like me to buy the products. That's not true for many high-flying companies lifted during the pandemic.

While the price is high, understand your own time horizon, and how you want to manage it. Shape it like a bonsai, pruning a little off here and there. Or you can let ride and see how that feels. That's how you got here in the first place.

Remember that whether you are feeling carefree or cautious, you have options. Think about what it would look like to diversify, monetize, or hedge. That's what founders do when 100 percent of their net worth resides in a single company. Those plans can take years to implement, so there's no rush.