

Profitable INVESTING Tips

Stock Market Investing Tips, Techniques, and Resources



Are We Seeing the Demise of IBM?

IBM was once the most admired company in the world. It was the main frame computer powerhouse. Then along came laptops followed by the internet and IBM has been in a recurring downward spiral. Nevertheless, the most successful investor, Warren Buffett, is the largest shareholder of IBM. And IBM has just completed twenty consecutive quarters of revenue decline. *CNBC* discusses Buffett taking a [mega million dollar beating on IBM](#).

The billionaire Oracle of Omaha is the largest shareholder – through his Berkshire Hathaway – of the information technology behemoth, whose stock has been sliding since it recorded its 20th-straight quarterly revenue decline after the closing bell Tuesday.

IBM actually topped Wall Street expectations on the bottom line, earning \$2.38 a share against estimates of \$2.35. However, top-line revenue fell short at \$18.16 billion compared with the \$18.39 billion anticipated according to Thomson Reuters estimates.

*“The portfolio will grow. I am confident that the IBM company will grow again,” IBM Chief Financial Officer Martin Schroeter told *CNBC*.*

In the good old days IBM was the reliable source of computing power and a purchasing manager could never get fired for buying IBM products. But when Jobs and Wosniak invented the Apple computer IBM was caught napping. They were the reason that Bill Gates became rich as he provided the DOS operating system that IBM used on its personal computers. And as computing power of small computers multiplied IBM sold fewer mainframes. Today IBM is much more diversified. *Google Finance* describes [IBM](#).

The Company operates through five segments: Cognitive Solutions, Global Business Services (GBS), Technology Services & Cloud Platforms, Systems and Global Financing. The Cognitive Solutions segment delivers a spectrum of capabilities, from descriptive, predictive and prescriptive analytics to cognitive systems. Cognitive Solutions includes Watson, a cognitive computing platform that has the ability to interact in natural language, process big data, and learn from interactions with people and computers. The GBS segment provides clients with consulting, application management services and global process services. The Technology Services & Cloud Platforms segment provides information technology infrastructure services. The Systems segment provides clients with infrastructure technologies. The Global Financing segment includes client financing, commercial financing, and remanufacturing and remarketing.

Although IBM's earnings have fallen steadily over the last five years its stock has recovered from \$120 a share to \$160 a share in the last year and a half. And IBM pays a \$1.40 dividend each year on each share. Are we seeing the demise of IBM or is this a unique buying opportunity? *Seeking Alpha* says to **buy the dip**.

IBM does trade at an attractive valuation. The company's P/E is just under 13 at 12.9 and Forward P/E is 12. This implies some growth for the company. It is worth noting that IBM trades at 2x sales and 8x book value.

I believe that the case for IBM in the long run is solid. The biggest driver, in my opinion, is the cloud. Cloud offerings were up 35% this quarter; led by cloud as a service, which was up over 60%. I believe that growth will continue in all things 'cloud'. I believe that multiple companies across multiple industries will begin to utilize the cloud more and more. IBM is the global leader in enterprise cloud and they'll hold on to that, that is my opinion.

Alternatively *The Street* says to dump your IBM shares in the trash and set them afire. Their argument is that IBM is abandoning its former core business of hardware and operating systems.

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