Why We're Not Recommending BlackBerry

Description

Dear Fellow Fools,

As many of you are aware, back in October, The Motley Fool launched its first advisory service here in Canada. Run by yours truly (along with a team of three other experienced analysts), *Stock Advisor Canada* has grown steadily since the launch and we're very excited about the progress we've made to this point evolving the service.

The cornerstone of *Stock Advisor Canada* is two fully researched stock recommendations that we release on the second Wednesday of the month. One of the recommendations is derived from the Canadian market, the other from the U.S. market (as we leverage the analytical firepower housed at Fool HQ in Alexandria, Virginia).

Because it's a members-only service, we can't explicitly give away any of the stocks that we *are* currently recommending. But today, I want to give you a sense of the kind of company that we *aren't.*

Business-first philosophy

Behind each and every one of our recommendations is a real business. This may sound obvious, but we never lose sight of the fact that we're recommending companies, not stocks.

Stocks get whipped around by the whims of the market on a day-to-day basis and over the short term, we have no idea if a stock is going to be up or down. Nobody does, despite what they may have you believe. Over the long term, however, we're confident that the businesses we recommend are positioned to grow – and as those businesses becomes more valuable, so too will their stocks.

BlackBerry (TSX:BB)(NASDAQ:BBRY) serves as a great illustration of a company that *doesn't* meet this criteria. Since we launched *Stock Advisor Canada* last October, BlackBerry's stock has climbed by about 25% — a pretty sweet (market-beating) return over this period. However, BlackBerry has yet to even be mentioned in one of our analyst meetings because it doesn't meet our underlying "business-first" criteria.

BlackBerry could be a monster performer over the next 5 or 10 years and I could look back on this message with egg on my face. However, as it stands, BlackBerry's future is completely unknowable. The company is undergoing massive structural changes and though new management is seemingly highly regarded and has a fantastic track record, only time will tell whether they can do anything magical with the collection of assets that remain embedded within this former Canadian icon.

Nobody — not CEO John Chen, not the company's largest shareholder, Prem Watsa, and certainly not anyone on our analyst team — can say with any degree of certainty that BlackBerry's business is going to be more valuable in the long term than it is today.

That's partly because nobody knows what it's worth today, as evidenced by the company's inability to sell itself last year. It's also partly the reality that the company must change, or die — and nobody knows what that change, if it occurs, is going to fully look like.

The root of BlackBerry's predicament

Let's look more closely at the pain that BlackBerry still needs to fight through.

Over the past 12 months the company reported revenues of $8.5 billion, which is down from nearly $20 billion in fiscal 2011. (OUCH!) When things were rocking and rolling (i.e., pre-iPhone et al.), BlackBerry blew through the $8.5 billion 12-month revenue mark by mid-2008.

Back then, the operating margin was consistently registering in the upper 20% range. Revenues and expenses were moving higher together. Today, that operating margin is well into the negatives, which means the revenue and expense relationship has not held. Expenses have not come down nearly as quickly as revenues.

This is a precarious situation. The newly formed management team must take a company that had an expense base that corresponded to a $20 billion (and growing) company and shrink it to one that is *maybe* an $8.5 billion company.

I say maybe because, again, we have no idea what BlackBerry's revenues will be in the future – which makes gauging the appropriate cost base even more challenging. Cut too much and stab yourself in the foot by missing out on potential opportunity. Don't cut enough and it could be "bye, bye, BlackBerry." As a result, BlackBerry is the definition of "too hard" for our analyst team.

If not BlackBerry, then what?

Like I said, we can't disclose any of the actual recommendations we've made thus far as they are reserved for our members, but let's just say, none of them face the uphill climb that BlackBerry does. Not even close!

Forgive me for talking a bit more about our methodology at *Stock Advisor Canada*, but I want to show some of the characteristics of the businesses we *have* recommended to subscribers. See how they contrast with BlackBerry's declining fortunes:

- A **low-cost producer** of a **"better mousetrap" solution** that is just beginning to gain a foothold for industrial manufacturing around the world.

- Benefits from the **network effect** of being the largest player in a rapidly expanding market.
- **Uniquely positioned** to benefit from the ongoing, and accelerating, **secular shift** in chord cutting and Internet/cable network usage.
- **Market-leading** developer of a suite of technological solutions that are rapidly being deployed in the North American energy space.
- Owner of a **unique asset** or collection of assets.

Thus far, we've recommended 12 stocks and all are underpinned by this critical, business-first criteria. And even though we're beating our benchmark, the S&P/TSX Composite, these recommendations are just as susceptible to a short-term downdraft in the market as every other stock out there. These companies, however, are all very well-positioned for the long term.

What else do you get?

I hope you'll consider joining us at *Stock Advisor Canada* to check out all the stocks that've made their way onto our official scorecard. If you're on the fence, let me tell you a bit more about the service.

Beyond the two monthly recommendations, there's plenty more to becoming a member of *Stock Advisor Canada*. Also included: a Weekly Update wherein our analyst team keeps you up to speed on company- and market-specific developments; a Scorecard that tracks how our recommendations are doing to ensure we're held accountable; our growing Watch List; and access to our Discussion Boards, where you can interact directly with myself and the analyst team as well as other members.

Best of all

It's RISK-FREE! Right now, you can join *Stock Advisor Canada* for a mere $99 per year – a full 67% off our list price ($299 per year). However, if you're not completely satisfied, **simply let us know within the first 30 days after signing up and we'll give you a full refund – no questions asked.** (Refunds after 30 days are prorated, too.) Simply click here to get started!

Bottom Line

I'm as Canadian as they come and am turned off by a sales pitch as much as (if not more than) anyone. This, however, is one pitch that I'm happy to make.

Even though I've been employed by The Motley Fool for about a year and a half, this is an organization I've had an eye on for many years. The simple reason is, they get it – far more so than the "buy-side" institutions that employed me earlier in my career. Not only does the company's mission — "to help the world invest … better" — strike a chord, but *Stock Advisor Canada* is a service I wholeheartedly believe will help our members make smarter long-term investing decisions.

It takes a lot for me to break out of my comfort zone, but here I am, asking for you to join us in our journey to thump the market.

Give it a shot! We'd love to have you on board! Again, to get started, simply click here right now.

Sincerely,

Iain Butler

Chief Investment Adviser

Motley Fool Canada

CATEGORY

1. Investing

Category

1. Investing

Date
2025/07/21
Date Created
2014/03/20
Author
tmfohcanada