Taking Stock: 'New media' old hat?

by Malcolm_Berko

Dear Mr. Berko: What is your opinion of Google, Yahoo and America On Line? I have 25 shares of Google, which I bought at $418, and because it's now selling at $677 do you think it might be a good time to buy 25 more shares of GOOG? I'd also consider owning Yahoo and AOL if you think today's lower prices represent a good entry point? I can't find AOL in the stock guide and would appreciate the symbol. Please advise quickly. Do you think XM and Sirius radio are good buys? They're trading at half their market values from a year ago. I think these two beaten-down satellite companies are potential gold mines. If you agree, I'd invest $6,000 to $8,000 as a gamble.

E.B.

Oklahoma City

Dear E.B.: Advertising is the fuel that drives the engines of Google Inc. (GOOG-$677), Yahoo! Inc. (YHOO-$23.75) and America on Line, more commonly known as AOL. However, AOL merged with Time Warner Inc. (TWX-$18.30) in mid-2001 when TWX was trading at $60 so it's not a stand-alone company. In fact, AOL is the weak chink in TWX's armor because of sluggish advertising revenues. And advertising revenues for GOOG as well as YHOO may not sizzle and soar this year or next, perhaps debunking the ionospheric predictions of Wall Street's wisest gurus. So, rapid as a rabbit I'd sell your 25 shares of GOOG in which you still have a swell profit.

Frankly, I think the stock is an excellent short. And the reason I figure that UBS, Bear Stearns and other Wall Street firms still maintain a buy recommendation on GOOG is that the Google boys won't look kindly at a "sell" recommendation on their stock. Management at UBS, etc., knows that a "sell" recommendation virtually eliminates any possibility of future consulting or investment banking business from Google. One is not supposed to say bad things about the people with whom you do business or with whom you are conducting business. Would it be fair to say that Wall Street research is less than 50 percent honest?

According to eMarketer (an online research firm) online advertising in the U.S. should increase by 29 percent this year and 33 percent in 2008. However, asking eMarketer for information about online advertising is like asking a fox for information on how to guard a hen house. While the number of online advertisers may increase, observers doubt that revenues will grow at 29 percent and 33 percent. However, a larger portion of 2007 and 2008 revenue growth will accrue not to GOOG, YHOO or AOL but to thousands of smaller Web sites like blogs, niche content sites, news collectors and the enormous number of growing social networking sites.

Meanwhile, the new generation of "Webbers" is becoming quite skillful finding data online, eschewing the use of less trusted portals such as GOOG, YHOO and AOL. So in my opinion, GOOG doesn't deserve to trade at 53 times earnings, nor does YHOO deserve its high, nosebleeding price-earnings ratio of 46! And now is not the time to buy YHOO, either!

XM Satellite Radio (XMSR-$12.40) and Sirius Satellite Radio Inc. (SIRI-$3.02) are losers and may be losers for some time to come. While these two companies have agreed on a merger, there seems to be an enormous resistance by Congress, the Federal Communications Commission and the National Association of Broadcasters. They're concerned that this merger would create a monopoly; I doubt there's much about which to be concerned. A significant portion of the advertising on XMSR and SIRI is exploitive, phony subreptive and pure bald-faced tommyrot. And most FM and AM radio stations around the country wouldn't stoop low enough to attract the sleaze that advertise on XMSR or SIRI.

And while satellite reception is simply superb and while some of the programming is simply wonderful, both companies are managed by incompetents who think that "profit" is a filthy word. Both stocks are trading just off their 52-week low and I doubt there's much that can happen to transmute that dross into gold. Just keep that money in your pocket; there will be a time soon when you can put it to much better use.

Please address your financial questions to Malcolm Berko, P.O. Box 1416, Boca Raton, FL 33429 or e-mail him at malber@comcast.net.