

The Smartphone Wars

By Don Freeman

THE big decision these days is what smartphone to buy. It seems everyone has an opinion on which one is the best. The other day, my wife asked me which one I thought was the best. She's torn between getting a Samsung or an iPhone. I told her she should also consider BlackBerry or Nokia. Let's see how they all compare and also see how their stocks look as investments.

Apple and Samsung dominate the smartphone industry, combined they have a market share of 52 per cent. Apple uses its iOS operating system, while Samsung uses Google's Android operating system. Nokia utilizes the Windows operating system while BlackBerry has its own operating system. Together, Nokia and BlackBerry have a 12 per cent marketshare.

Apple and Samsung have the biggest rivalry in the smartphone wars – because they both make wonderful products. Samsung's flagship phone is the Galaxy S4, while Apple's top phone is the iPhone 5. The main difference that users will first notice between the two is screen size. Samsung offers a much larger five-inch screen. Some users prefer the larger screen, while others don't want to be encumbered by such a large device in their pocket and prefer the iPhone. Chances are that if you watch a lot of videos on your phone or play games, then you'll like the Samsung much better.

The other big difference besides screen size is the operating system (OS). The S4 is equipped with the latest Android OS – 4.2.2 Jelly Bean and has Samsung's TouchWiz Nature interface on top; which customizes the whole

experience and adds numerous unique features like Smart Stay, Dual Shot, Air View and many more, some of which useful, others – not so much. The GS4 runs smoothly and is highly customizable. The main virtue of its software is that you can do whatever you wish with it.

Samsung and Apple represent the high-end of the current smartphone offerings. Here in Thailand they'll each set you back about 24,000 baht, maybe a little less – depending on your negotiation skills! If those two phones are out of your budget, you would want to consider Nokia's Lumia or BlackBerry's 10. Both phones have different operating systems and offer a cheaper alternative. The biggest difference between

these two phones is the operating system. The BlackBerry uses its new BlackBerry 10 operating system. It's fast, slick and intuitive to use. As with anything new, it takes a little while to get used to the layout of BlackBerry 10, but once you're familiar with it, it becomes very natural. The BlackBerry Hub lets you peek at all your messages and notifications from all apps with the slightest flick of the thumb. Nokia's Lumia 920 runs the latest Microsoft mobile OS – Windows Phone 8. As you are probably aware, Windows Phone 8 places a lot of emphasis on its "Tiles" layout, which lets you customize the Lumia 920's home screen to suit your wants and needs.

The Lumia's software is incredibly easy to use and the animations that take you from the home screen to an app deserve lots

Exchange. It trades in the US on the OTC market, but the volume is very low.

That pretty much leaves me to decide between Apple, Nokia and BlackBerry. All are value plays instead of growth plays. Apple's growth in my opinion has peaked and it is no longer a growth stock. Investors have to look at the stock from a valuation perspective. In that regard, it is an incredibly cheap stock. Take into account that the company has US\$137 billion in cash and growing every day. Last year the company's net income was \$41.75 billion! For any company making that amount of money with a price/earnings ratio (P/E) of less than 10, its safe to say I'm interested. Plus the stock is down 35 per cent in the last year. I like buying good quality companies on pullbacks.

BlackBerry or Research In Motion stock has been in a free fall for the past five years. The stock peaked in 2008 above \$140 and traded under \$10 for much of 2012. However, the stock has rebounded this year on optimism for the new BlackBerry 10.

BlackBerry's patents are estimated to be worth \$2.25 billion. The company right now has a market cap of about \$7.57 billion at \$14.69 a share. The company also has \$2.65 billion in cash and no debt. If the patents are worth \$2.25 billion and there's \$2.65 billion in cash, that means your getting a business that had revenues of \$11.07 billion for only \$2.67 billion.

Nokia, like BlackBerry, has a valuable patent portfolio and has been working to monetize that portfolio. Nokia actually sued BlackBerry for patent infringement and received a one-time payment of \$65 million plus recurring royalty payments. Nokia is further aided in the patent wars with its 15 year patent licensing agreement with Qualcomm. It is estimated that out of Nokia's \$39.07 billion in revenue, \$600 million comes from patent royalty income. This makes Nokia's patent

portfolio worth more than BlackBerry's.

In terms of valuation, Nokia has \$13.13 billion in cash and debt of \$7.25 billion. That leaves \$5.88 billion plus an estimated \$4 billion for the patents and that gives you \$9.88 billion. At \$3.52 per share, Nokia has a market cap of \$13.06 billion, you're getting a company with \$39.07 billion in revenues for only \$3.18 billion.

In the end Apple's brand makes it probably the best long-term investment for investors. But at \$430 a share, it is a pricey

investment. For investors that are looking to take more of a gamble, Nokia and BlackBerry present an attractive opportunity. Their stock performance will depend on who emerges and becomes the number three smartphone in the market. Right now BlackBerry and Nokia are battling it out with their new phones and a winner has yet to be declared.

I have held off for years buying a smart phone but last month took the plunge and I am very impressed with the Samsung Galaxy S4. I call it a phone but it is really a small powerful computer that is making my life easier to connect with friends and clients.

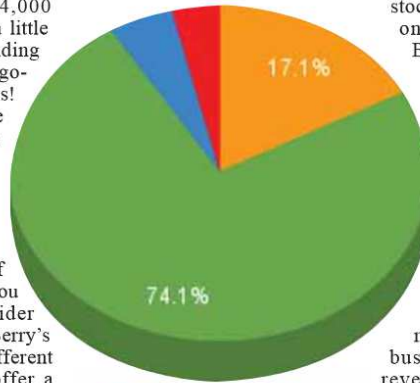
If you would like to discuss smartphones or investing in the space, feel free to give me a call, email or Skype.

I'm available anytime to discuss this article and an investment strategy.

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Q2-2013 Global smart phone sales (roughly extrapolated)



- iPhone
- Android
- Windows Phone
- BlackBerry

of credit for style. Both smartphone's OSs are looking to take a chunk out of the Android and iOS market share, but both lack one key ingredient – and that is apps. BlackBerry 10 and Windows Phone 8 lack the incredible breadth and depth of the Android and iOS app catalogs and this is a big issue for the average smartphone owner.

Now for me, since I'm in the investment business, it's also important to look at each as a possible investment. Samsung is a little harder to invest in because it trades on the Korean Stock

