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TELECOM



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- Tips and tools for security analysis and portfolio management
- A useful guide for investing in any market condition

Foreword by *New York Times* bestselling author Ken Fisher

Fisher Investments on Telecom

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Fisher Investments on Telecom

Fisher Investments
with
Dan Sinton and
Andrew S. Teufel



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Foreword

I'm pleased to introduce the tenth in a series of investing guides from Fisher Investments Press. This imprint—the first ever from a money manager—was launched in partnership with John Wiley & Sons to bring the accumulated investing wisdom of my firm to you, whether you're an investing enthusiast, student, or aspiring professional.

This isn't meant as a technical guide on the nuts and bolts of telephony. Rather, it's an investing guide. Like the other books in the *Fisher Investments On* series, it aims to help you make better, forward-looking forecasts on the sector, its industries, and its individual stocks. Each book in the series can stand alone—read one or just a few on topics that interest you. But together, they can be a comprehensive, do-it-yourself training program for capital markets analysis—done from the comfort of your couch. The series will eventually cover all the standard investing sectors (Energy, Materials, Consumer Staples, Health Care, Utilities, etc.—just Financials remains after this) as well as other investing regions and categories.

Telecom (official name: Telecommunication Services Sector) is currently about 5 percent of total world stocks (as measured by the MSCI All Country index). It's a small sector—globally, only Utilities is smaller. In the US, it's just 3 percent of the S&P 500—smaller than Utilities (as of 12/31/2010). But in capital markets, “small” never means “unimportant.” Telecom firms don't manufacture the super cool, itty bitty but powerful computers we now call smartphones. Rather, they provide the service—fixed line, wireless, even some cable and satellite. Try making a phone call without that.

Besides the vital services Telecom firms sell, the sector can play an important role in a larger portfolio strategy. These firms are heavily

regulated—because they provide a vital service. Demand for them doesn't stretch much in good times or snap back much in downturns. They are also very capital intensive—laying new fixed line and launching new wireless networks are very expensive. These features (and others described in the book) help make it a relatively less volatile sector and therefore classically defensive—it tends to do best in a bear market.

But not always! If you accurately forecast a bear market (never easy and difficult to repeat), you may not always want to overweight Telecom. There are traits to learn that sometimes make it fail. And always remember stocks look forward, not back, so it's seemingly perverse but perfectly normal for Telecom stocks to start outperforming just when sentiment seems particularly rosy and few foresee a bear market. This book describes what can help drive Telecom over- and underperformance in a variety of market environments—critical to building a well-diversified portfolio.

Regional analysis matters too. In developed nations, Telecom isn't (typically) seen as a growth industry. But in some Emerging Markets, penetration rates are still low and rising. Knowing if local regulation and trends favor fixed line versus wireless or some combination is key. Plus, unlike many other sectors, most Telecom firms typically don't sell services across country lines—though increasingly, progressive deregulation is starting to move the needle for international firms. Local regulation and politics can matter—a lot. The book shows you what to look for and gives you resources for staying on top of ever-changing global regulations.

What this book and others in the series won't do is give you hot stock tips or a set “formula” for finding them. In my third of a century-plus investing money for private clients and big institutions, I've never run across such a thing. Someone telling you otherwise is telling you more of what they don't know than what they do. Rather, this book provides a workable, repeatable framework for increasing the likelihood of finding profitable opportunities in the Telecom sector. And the good news is the investing methodology presented here works for all investing sectors and the broader market. This methodology

should serve you not only this year or next, but the whole of your investing career. So good luck and enjoy the journey.

Ken Fisher
CEO of Fisher Investments
Forbes “Portfolio Strategy” Columnist
Four-time *New York Times* best-selling author

Preface

The *Fisher Investments On* series is designed to provide individual investors, students, and aspiring investment professionals the tools necessary to understand and analyze investment opportunities, primarily for investing in global stocks.

Within the framework of a “top-down” investment method (more on that in Chapter 7), each guide is an easily accessible primer to economic sectors, regions, or other components of the global stock market. While this guide is specifically on Telecom, the basic investment methodology is applicable for analyzing any global sector, regardless of the current macroeconomic environment.

Why a top-down method? Vast evidence shows high-level, or “macro,” investment decisions are ultimately more important portfolio performance drivers than individual stocks. In other words, before picking stocks, investors can benefit greatly by first deciding if stocks are the best investment relative to other assets (like bonds or cash), and then choosing categories of stocks most likely to perform best on a forward-looking basis.

For example, a Telecom sector stock picker in the late 1990s probably saw his picks soar as investors cheered the so-called New Economy. However, from 2000 to 2002, he probably lost his shirt. Was he just smarter in the late 1990s than he was in 2000? Unlikely. What mattered most was stocks in general, and especially Technology and Telecom stocks, did great in the late 1990s and poorly entering the new century. In other words, a top-down perspective on the broader economy was key to navigating markets—stock picking just wasn’t as important.

Fisher Investments on Telecom will guide you in making top-down investment decisions specifically for the Telecom sector. It shows how

to determine better times to invest in Telecom, what Telecom industries are likelier to do best, and how individual stocks can benefit in various environments. The global Telecom sector is complex, covering different industries and countries with unique characteristics. Using our framework, you can be better equipped to identify their differences, spot opportunities, and avoid major pitfalls.

This book takes a global approach to Telecom investing. Most US investors typically invest the majority of their assets in domestic securities; they forget America is less than half of the world stock market by weight—over 50 percent of investment opportunities are outside our borders, and even more when you include emerging markets. While a relatively large proportion of the world’s Telecom weight is based in the US, there remain many investment opportunities overseas. Given the vast market landscape and diverse geographic operations, it’s vital to have a global perspective when investing in Telecom today.

USING YOUR TELECOM GUIDE

This guide is designed in three parts. Part I, “Getting Started in Telecom,” discusses vital sector characteristics and the history of the sector since Alexander Graham Bell invented the first practical telephone.

Part II, “Next Steps: Telecom Details,” provides an overview of the sector’s two industries and walks through the next step of sector analysis. We discuss the most important economic, political, and sentiment factors that drive Telecom’s relative performance. We also explore some of the most influential consumer trends driving demand for Telecom services and products and the resulting challenges and opportunities.

Part III, “Thinking Like a Portfolio Manager,” delves into a top-down investment methodology and individual security analysis. You’ll learn to ask important questions like: What are the most important elements to consider when analyzing wireline and wireless service providers? What are the greatest risks and red flags? This book gives you

a five-step process to help differentiate firms so you can identify ones with a greater probability of outperforming. We also discuss a few investment strategies to help determine when and how to overweight specific industries within the sector.

Fisher Investments on Telecom won't give you a silver bullet for picking the right Telecom stocks. The fact is the "right" Telecom stocks will be different in different times and situations. Instead, this guide provides a framework for understanding the sector and its industries so that you can be dynamic and find information the market hasn't yet priced in. There won't be any stock recommendations, target prices, or even a suggestion of whether now is a good time to be invested in the Telecom sector. The goal is to provide you with tools to make these decisions for yourself—now and in the future. Ultimately, our aim is to give you the framework for repeated, successful investing. Enjoy.

