High-flying Apple falls to earth as investors fret over taxes

Leah Schnurr and Chuck Mikolajczak, Reuters

(Reuters) - Gravity has taken hold of Apple, and a lot of investors have been smacked on the head.

Apple Inc, the largest U.S. stock by market value, was headed toward its eighth straight week of declines on Friday, as the rush to secure profits before a potential hike in capital gains taxes next year has investors dumping the market favorite.

Since hitting a record high of $705.07 a share in September, Apple has lost about a quarter of its value. The stock's descent has vastly outpaced those of the S&P 500, which is down just under 7 percent in the same time frame.

"No individual investment can defy gravity," said Erik Davidson, deputy chief investment officer for Wells Fargo Private Bank, in San Francisco.

The declines have shaved about $170 billion off the company's market capitalization -- or just a bit more than the entire value of Coca-Cola. Apple is still currently worth about $493 billion, about $100 billion more than the second-most valuable U.S. company, Exxon Mobil.

Apple on Friday afternoon was little changed, up 0.2 percent at $526.59.

Taxes on capital gains and dividends [1] are likely to rise next year as part of an expected deficit-cutting deal to avoid the so-called fiscal cliff of scheduled tax hikes and spending cuts.

With a stock like Apple, where investors may have large embedded capital gains as a result of its stellar run, selling now locks in gains and offsets the possibility of higher taxes next year. The uncertainty over the outcome of talks in Washington over the fiscal cliff has sapped the natural inclination to buy declining shares.

"Some of the selling is being driven by these tax decisions, but the flip side is there is not a lot of buyers because the buyers are procrastinating to see how the negotiations come out," said Bucky Hellwig, senior vice president at BB&T Wealth Management in Birmingham, Alabama. "You probably have an inordinate effect to the downside because of these tax strategies."

The current 15 percent tax rate on dividends [1] and capital gains is scheduled at expire at year end, and the two items are to revert back to being taxed as ordinary income, which means the highest earners would face rates of 35 percent.

The recent plunge is a reversal of fortune for high-flying Apple, those though the shares remain up about 30 percent for the year so far. Apple shares have rise every year since 2003 with the exception of 2008, when the market was struck by the global financial crisis.

"If you've got all these gains - which a lot of Apple investors have because it's done very, very well - then you're going to see selling in the likes of Apple and other companies that have had good runs," Davidson said.

Apple's stock has been below both its 14-day and 50-day moving average for over a month, suggesting both the short- and mid-term momentum is negative.

Despite the declines, Thomson Reuters StarMine estimates the stock's intrinsic value is about $833.90 a share. That figure is derived from analyst estimates for growth over the next five years and StarMine's expected growth rates for several years after that.

Given that the stock is likely worth more than where it is trading, tax concerns are probably playing into the recent weakness, said Phil Orlando, chief equity market strategist at Federated Investors, in New York.

"I think the stock is worth $750," said Orlando.

"If you are sitting here looking at Apple trading at $500, you say, 'Well the stock ought to be 50 percent higher over the course of the next year or two,' so the stock looks pretty attractive."

(Reporting by Leah Schnurr and Chuck Mikolajczak; Editing by Leslie Adler)

Links:
[1] http://www.reuters.com/finance/markets/dividends?lc=int_mb_1001