

David's Re-Recommendation: Amazon.com

David Gardner | December 17, 2010

CURRENT PRICE: [AMZN](#) \$ 2773.63 ↑ \$ 59.81 (2.2%) CwàG! Yí B≈šOG'AMAZON | tN v

Our *Stock Advisor* scorecard includes some of the market-thumpingest companies of the past eight-plus years. So each time a review issue rolls around, we look to that list of past picks to find the month's best opportunity. Think of it as a chance to add to a favorite position or to buy a stock you've overlooked. This time, my re-recommendation is a classic innovator that belongs in every member's portfolio.

Amazon.com ([NASDAQ: AMZN](#)) is a Core stock, a household name, and a service I suspect the vast majority of you have used. Yet for too many investors, it falls into the "overlooked" category. Only 17% of *Stock Advisor* members using My Scorecard say they own or are following Amazon. Let's fix that.

Don't Wait for a Sale

Perhaps you're concerned that you've missed the boat. Indeed, Amazon has gained more than 1,000% since I first recommended it to *Stock Advisor* members in September 2002. But here's a secret that only longtime Fools know: *I've actually been behind Amazon even longer*. I picked it for the Fool's original Rule Breaker portfolio in 1997 at a split-adjusted \$3.20 per share. By the time *Stock Advisor* arrived, Amazon was up 378% — and was overlooked as overvalued by many pundits.

Eight years ago, I acknowledged that "paying 75 times next year's earnings brings with it some real risk." Today, Amazon may trade at "only" 51 times its estimated 2011 earnings, but I'm not going to argue that it's cheap. Amazon is expensive, it almost always has been expensive, and it will continue to be expensive for the foreseeable future.

How Innovation Wins

Instead, consider what makes Amazon deserve such a rich premium. When our team discussed where Amazon fits into our review of all 48 Team David companies, no one could imagine it losing its place at

AMAZON.COM

Amazon.com is the world leader in online commerce.

Why Buy:

- As e-commerce evolves, Amazon has stayed at the front of the pack.
- The CEO's visionary leadership focuses on long-term strategy.
- The stock will always look expensive, but it's worth it — so pay now or pay more later.

Key Facts:

- **Recent Price:** \$175.57
- **Risk Level:** Medium
- **Industry Position:** Innovator
- **Market Cap:** \$78,802
- **Cash/Debt:** \$5,885 / \$164
- **Revenue ('07/'08/'09):**
\$14,835 / \$19,166 / \$24,509
- **Earnings ('07/'08/'09):** \$476 / \$645 / \$902
- **Insider Ownership:** 20.4%
- **Biggest Threat:** The economy gets worse
- **The Team Says: Shop for the Future**

Data as of 12/15/10. Dollar amounts in millions except recent price.

the pinnacle of online retail. Its position is safer now than it has ever been: E-commerce has matured and competition has become more sophisticated, yet Amazon has only increased its dominance. It is simply stunning that a company that brought in more than \$30 billion in sales in the past year has actually *accelerated* its revenue growth to the fastest rate in a decade. Eight years ago, most analysts would have told you that was impossible.

I give a lot of credit to the man who started it all, CEO Jeff Bezos. A true business visionary, he's built one of this generation's great companies — reason enough to own it. Consider some of Amazon's innovations, once derided, now imitated. It allowed negative product reviews. It allowed competing merchants to sell through its site. It expanded from books and media to become a general merchandiser in an age of specialty. It opened its development tools to outsiders through Amazon Web Services. Bezos says that while most people tend to focus on how the world will change, he builds the business around what he expects to stay the same. A concentration on what is stable allows him to make investments that take years to pay off.

The Foolish Bottom Line

That's our strategy, too. Amazon is an investment for the next decade, not the next quarter or year. A premium-priced stock can come down quickly — Amazon has stumbled in the past, and if you're wary of today's \$176 price, build your position in portions. But be prepared to pay more in the future. In fact, I'll throw out a prediction that once would have seemed preposterous: Amazon, currently valued at \$79 billion, will eventually surpass Wal-Mart's \$199 billion market cap. By now, though, we've learned not to bet against Amazon — so put your portfolio on the winning side. 

- **Post Your Review:** [Join the conversation](#) on the Amazon.com discussion board.
- **Update Your Shopping Cart:** [Add AMZN to My Scorecard](#) to track your returns and follow all our coverage.

David owns shares of Amazon.com, Apple, FedEx, Ford, Panera Bread, and Rosetta Stone; and Karl owns shares of Apple. The Motley Fool owns shares of Apple and FedEx.

DAVID'S BEST BUYS NOW

See our outlook for this month's top timely opportunities in our [Report Card](#):

- **Apple** (AAPL)
- **FedEx** (FDX)
- **Ford** (F)
- **Panera Bread** (PNRA)
- **Rosetta Stone** (RST)

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