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TECHNOLOGY

Is Amazon Stock A Buy As It Restructures Workforce In Tough Times?



BRIAN DEAGON | 03:03 PM ET 04/14/2023

For years, Amazon seemed invincible, an e-commerce giant that made other companies shiver when it muscled into their markets. It helped Amazon stock soar into four-digit territory, and the company's earnings reports often delighted investors.

Now, after a year of troubling earnings reports, Amazon has launched a major restructuring, including plans to cut 27,000 employees from its workforce. Is Amazon stock a buy?

In late March, Amazon announced plans to slash 9,000 jobs. That's on top of the 18,000 job cuts it announced in January.

"Given the uncertain economy in which we reside, and the uncertainty that exists in the near future, we have chosen to be more streamlined in our costs and head count," Amazon Chief Executive Andy Jassy said in a written **notice to employees** when the layoffs were announced. He also suggested more layoffs are possible. The cuts mainly focus on Amazon Web Services, advertising, Twitch, human resources and its stores divisions.

Amazon Jumps Into Artificial Intelligence

On April 13, Amazon jumped into the booming field of **generative artificial intelligence**, the technology behind ChatGPT. Amazon stock climbed on the news, as did other AI companies.

Alphabet and **Microsoft (MSFT)** previously announced plans to bring ChatGPT to the public. Meanwhile, Amazon's cloud computing unit, Amazon Web Services, plans to target corporate customers.

AWS will also expand access to custom-made chips. They say the chips can run AI software more efficiently and cheaper than competitors can.

"Machine learning has been a technology with high promise for several decades. But it's only been the last five to 10 years that it's started to be used more pervasively by companies," Chief Executive Andy Jassy said in his letter **to shareholders**.

Machine learning is a form of artificial intelligence.

Jassy went on to say: "We will continue to invest substantially in these models across all of our consumer, seller, brand and creator experience."

The three largest cloud computing companies, AWS, Microsoft and Google, have moved AI development to the top of their to-do list. Each is trying to capitalize on the booming interest in artificial intelligence technology.

A Heightened Focus On Cost Savings

After the second round of job cuts, Arun Sundaram, senior equity analyst at CFRA, maintained a buy rating on Amazon stock.

"While some may view these job cuts as a sign of a gloomier macro outlook, especially as it relates to cloud computing and digital advertising, we believe investors will appreciate Amazon's heightened focus on cost savings and free cash flow," Sundaram wrote in a note to clients.

The most recent layoff announcements, in March, came after Amazon announced **fourth-quarter results** on Feb. 2. The company beat on revenue but missed on earnings, as its typically strong cloud computing unit failed to rescue the e-commerce giant.

The cloud unit showed that **revenue decelerated**. AWS sales jumped 20% to \$21.4 billion, but that was below expectations and a deceleration from 27% growth in the prior quarter

Oppenheimer analyst Jason Helfstein said more cost-cutting efforts are needed. "We believe more layoffs are necessary for e-commerce to become meaningfully profitable," he said in his note to clients.

Amazon Continues Push Into Health Care

In late February, Amazon **completed** its \$3.9 billion acquisition of One Medical, giving it a primary health care provider with in-person and virtual treatment as well as lab tests and programs for preventive care.

"We're on a mission to make it dramatically easier for people to find, choose, afford and engage with the services, products, and professionals they need to get and stay healthy," said Neil Lindsay, senior vice president of Amazon Health Services, in a written statement with the **Amazon news release**.

Amazon has made several forays into the health care market. In 2018 Amazon paid about \$1 billion to acquire PillPack. That gave Amazon the ability to ship prescriptions around the country, making it a direct threat to the more than \$400 billion pharmacy business.

Amazon has long-held ambitions to greatly simplify how consumers receive health care, but it remains a lofty goal that has yet to emerge as a moneymaking venture.

Technical Analysis Of Amazon Stock

In the stock market, timing is critical. So when you're looking for **stocks to buy or sell**, it's important to do the fundamental and technical analysis that identifies lower-risk entry points that also offer solid potential rewards.

The **IBD Stock Checkup** tool shows that Amazon stock has a weak **IBD Composite Rating** of 36 out of 99. When choosing growth stocks for the biggest potential, **based on technical and fundamental criteria**, try to focus on those with a **Composite Rating** of 90 or higher.

Amazon's **Relative Strength Rating** now stands at 32 out of 99. Ideally, look for stocks with a rating of 80 or higher.

Is Amazon Stock A Buy?

AMZN is not a buy at this time. It's still in a long-term downtrend but has been recovering since it hit a low at the start of the year.

AMZN stock is now forming a **cup base** with a 114.10 **buy point**, and the price action is so far pretty smooth.

Even if Amazon breaks out, it has a mountain to climb back. Overhead supply could retard any advance AMZN tries in the next several months.

The stock continues to hit resistance at the 200-day line, which has been a resistance level for about a year. Amazon is currently sitting on its **50-day line**. Falling below that would be reason for caution. But holding above it and then piercing through the 200-day line and holding would be a positive sign.

Recognizing stock **chart patterns** is one key to the investment guidelines. IBD offers a broad range of **growth stock lists**, such as **Leaderboard** and **SwingTrader**.

Investors also can create watchlists, find companies nearing a **buy point**, or develop custom screens at **IBD MarketSmith**.

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