Title:
Cruise stocks: a risk vs. reward analysis

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Summary:
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Article Body:
Investors know that oil prices and terrorism, two things that really can't be controlled, have a large influence on the stock market. Many investors avoid airline stocks for this reason. They can't control one of their biggest expenses (fuel) and an act of terrorism can seriously damage the industry.

Why are cruise stocks any better? Rising fuel costs and Hurricane Katrina led to lower stock prices for companies like Carnival Corp. and Royal Caribbean Cruises Ltd. These two cruise lines account for about 75 percent of the cruise industry, worldwide.

When George Allen Smith IV, from Connecticut, vanished while on a Royal Caribbean cruise, the industry received a lot of negative publicity.

Certainly, there are many negatives for cruise stocks, but some investors are bullish. First, there is no direct indication that the vanishing honeymooner from Connecticut has hurt ticket prices. Valuations on these stocks also look good.

Carnival Corp. trades at 16 times estimated 2006 earnings; its historic range is 10 to 30 times earnings. Royal Caribbean trades at 14 times estimated 2006 earnings; its historic range is 5 to 24 times earnings. Growth potential is strong as only 4 percent of Americans have ever taken a cruise.

When considering cruise stocks, remember the risks. A sharp rise in fuel prices or another terrorist attack would likely have a negative impact on cruise stocks. In my opinion the risk outweighs the possible reward as I don't expect cruise lines to significantly outperform the broader market.