Apple Shares Lose Shine

By STEVEN RUSSOLILLO and JONATHAN CHENG

The meteoric stock-price rise that has propelled Apple Inc. to become the world's most-valuable company is showing signs of faltering, threatening to drag much of the market down with it.

Apple's shares plunged 4.1% on Monday, extending their slide to a fifth consecutive day and sparking worries about whether the maker of iPads and iPhones may be headed for a bigger descent. Apple is now down 9.9% from its intraday peak of $644 hit on April 10, just shy of the 10% level that market watchers call a "correction." On Monday, Apple fell $25.10, to $580.13, in 4 p.m. Nasdaq Stock Market composite trading.

The past five days' decline has seen more than $50 billion shaved off Apple's market capitalization. That is more than Hewlett-Packard Co.'s entire market cap of about $48 billion.

"They're giving us a preview of what life might be like when companies like Apple stub their toes; that's certainly a thought that we need to have at the back of our heads," said Phil Orlando, chief equity strategist for Federated Investors Inc. in New York, which manages $370 billion.

The slump has exposed just how large and influential Apple's stock has become. The shares have soared 43% this year, driving the company's market value briefly above $600 billion last week. After Monday's decline, its market value was about $541 billion.

Moreover, Apple is the largest stock in the Nasdaq Composite Index and the Standard & Poor's 500-stock index. As Apple goes, so, too, do those indexes.

For the past few months, that dependence has been only a positive. Apple has contributed 120 points to the Nasdaq Composite's advance this year of 383 points, according to Birinyi Associates. The Nasdaq’s 15% advance has surpassed the 5.8% rise in the Dow Jones Industrial Average, which doesn’t count Apple among its constituents. The S&P 500 has gained 8.9%.

The Nasdaq tumbled 0.8% on Monday, and Apple accounted for about two-thirds of its decline. The S&P 500 fell 0.05%. Without Apple, it would have risen about 0.14%, according to Howard Silverblatt, senior index analyst at S&P Indices, representing Apple's largest-ever negative impact on the index. By contrast, the Dow rose 0.6%, driven by blue chips such as Exxon Mobil Corp. and Procter & Gamble Co.

Apple, already a heavily traded stock, has seen activity shoot up even more during its recent swoon. Trading volume has surged over the past week as the selloff has accelerated.

Many traders and analysts scrambled to account for Apple's sudden slide, given the relatively positive mood elsewhere in the stock market.
Some cited rumors that the company was preparing to launch a cheaper iPad; others said the stock had risen too steeply as a reason for the recent decline.

The descent, which accelerated on Monday, has sparked a broader debate about whether Apple is at the beginning of what could be an even larger decline.

The losses recently have been particularly notable because most other stocks have been rising. On Monday, 24 of the 30 Dow component stocks gained.

"A lot of people are starting to ask very legitimate questions about Apple," said Michael Farr, president of portfolio-management firm Farr, Miller & Washington. "It's a very fine company, but they haven't had many pullbacks."

Steve Dowling, an Apple spokesman, declined to comment on the share-price move.

Many investors said Apple was due for a pullback and probably would soon resume its ascent. "Every living thing, including Apple, needs to stop and breathe," said Rick Bensignor, chief market strategist at Merlin Securities.

Its upward march has been largely unchallenged until now. The stock is up nearly sixfold since March 2009.

Apple has survived setbacks before. The stock traded under a cloud for much of 2011 as investors worried about the company's ability to innovate under new leadership. Its co-founder, Steve Jobs, passed away last October.

But the company has maintained its successful run, notching up new sales and profit records and seeing its stock rocket up nearly 70% in the six months after Mr. Jobs's death.

At least two analysts recently predicted Apple would hit $1,000 a share, and others have suggested its market capitalization could reach $1 trillion in a few years.

Much like the cultlike status of Apple's products, its shares, too, have attracted a fervent cadre of shareholders. Investors large and small piled into the stock. Even some fund managers who wouldn't typically own a large technology company have Apple in their portfolio.

Last month, Apple unveiled its first dividend in more than a decade, as the company plans to distribute some of its cash hoard of roughly $100 billion to shareholders. That helped attract a whole new class of investors looking for dividend returns.

The company also plans to buy back as much as $10 billion in stock over the next three years, beginning on Sept. 30, the start of its 2013 fiscal year.

Apple began selling the third-generation iPad last month, as the company aims to widen its lead in the tablet market. The device was the first major product launch for Apple since the latest iPhone went on sale in October.

Some investors dismissed the recent declines as a blip.

"This just seems like a regular correction to me," said Susan McNeice, an individual investor who owns Apple and trades from her home in northern Virginia. "If you look around, there's been some softness in the market overall, and when you ask, 'Has Apple done something colossally stupid?' The answer is no. Has some competitor come along to change Apple's prospects? No."

Some analysts cited many reasons for Apple's selloff over the last week.

Piper Jaffray analyst Gene Munster on Monday warned in a research note that Apple's Mac sales for the March quarter may miss analysts' expectations, which could further weigh on the stock. Despite the warning, Mr.
Munster said strong iPhone and iPad sales likely will mask any weakness in the Mac segment.

Mr. Munster, who maintains an "overweight" rating on the stock, remains one of the most bullish analysts on Wall Street. This month, he predicted Apple's shares will reach $1,000 in 2014 and become the first company ever to have a $1 trillion market capitalization.

Dave Lutz, an analyst at Stifel Nicolaus, said there were rumors that Apple could roll out an iPad Mini priced at $200. In a research note on Monday, he said the new product could "cannibalize sales."

Adding to potential worries, Apple and five book publishers were accused by the Justice Department of colluding to raise e-book prices. Apple has called the allegations "simply not true."

Meantime, analysts and traders began warning against predicting a big drop.

"Short Apple at your peril," said Michael Shea, managing partner at Direct Access Partners, referring to betting against the stock. "This company has continued to find ways to innovate and bring products to the market that nobody else does."

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