

## SAMSUNG CATCHES FIRE WHILE APPLE SALES DISAPPOINT

Apple may not have their phones burning up, but they have other problems, such as disappointing sales of the iPhone 7, so poor that for the first time, they didn't even release first week sales.

At [Dohmen Capital Research](#), we see that Apple's US Mac sales are also plunging, down 13.2% from one year ago. This is not a big part of total Apple sales, but it adds up when all the other "great hopes," such as the Apple Watch, Apple Pay, Apple TV, etc. have fizzled. Even Apple Music now faces great competition from Amazon Music at a much lower price.

Total world-wide PC sales are also down, about 3.7%. It appears that the world is going into recession. Therefore, computer sales for Apple are not likely to rise. People are finally reluctant to pay 2-3 times more for the Apple logo. Because the stock is so important in the indices, it is still being supported as part of the total market support agenda. But that will end as well when the big bear market starts. And that may not be far away. Watch our [WELLINGTON LETTER](#) for the signals.

Samsung of course has even bigger problems, this one with its Note 7. Samsung's "fire in your pants" was a new unintended feature. People didn't seem to like it. Nor did the airlines. It was a design flaw, apparently as they hurried production too much, in order to be a few days ahead of the Apple's iPhone 7 event. Not smart!

Thus, Samsung just decided to discontinue the Note 7. Surrender! They probably decided that brand reputation had suffered too much to revive it. Can you imagine, pulling out your Note 7 at a party and everyone running for the exits?

As a result, Samsung has cut its future earnings forecast by about one third. It had expected to sell 25 million Note 7s this year, now it's zero as they are being discontinued. But Samsung is a huge company. In six months, this will be forgotten. In fact, the next Galaxy will likely have many more features just to make up for the Note 7 disaster.

The market perception is that Apple will be the big beneficiary of Samsung's problem. We disagree. Once you have had the Galaxy, you will not switch back to the Apple "eco-jail." Secondly, the Note was a very large device, used by a relatively small number of people globally. Perhaps some users will go to other Android phones, like the new Google phone.

Apple has other problems. As mentioned, their Mac computer has had a sales plunge of over 13% much more than the decline in PC's.

Wolf Richter, someone we always enjoy reading, has these comments on PC and Mac sales. He writes that while Mac sales plunged, PC sales rose world-wide and soared in the US.

He points out that there is something strange with the numbers for "shipments," and asks if this is a case of "channel stuffing." This is when producers over-ship to retailers, with guarantees to take back unsold merchandise, offer bonuses, and other incentives. Some of this is illegal.

Richter writes:

“And this is what happened in the US. **Apple Mac shipments plunged 13%**, and shipments of “**Others**” **plunged 19.8%**, while shipments of **the top three brands soared a combined 9.5%**, with Dell and Lenovo picking up double-digit gains. These top three vendors now command 71% of the US market. Total US shipments rose 1.7% to 17.6 million units:

| Top 5 Vendors & Others, United States                        |                   |                      |                   |                      |                  |
|--|-------------------|----------------------|-------------------|----------------------|------------------|
| Shipments are in thousands of units                          |                   |                      |                   |                      |                  |
| Vendor   | 3Q 2016 Shipments | 3Q 2016 Market Share | 3Q 2015 Shipments | 3Q 2015 Market Share | 3Q16/3Q15 Growth |
| 1. HP  | 5,255             | 29.9%                | 4,968             | 28.8%                | 5.8%             |
| 2. Dell  | 4,602             | 26.2%                | 4,154             | 24.1%                | 10.8%            |
| 3. Lenovo  | 2,669             | 15.2%                | 2,281             | 13.2%                | 17.0%            |
| <b>4. Apple</b>  | <b>2,079</b>      | <b>11.8%</b>         | <b>2,395</b>      | <b>13.9%</b>         | <b>-13.2%</b>    |
| 5. Acer  | 765               | 4.4%                 | 737               | 4.3%                 | 3.8%             |
| <b>Others</b>  | <b>2,184</b>      | <b>12.4%</b>         | <b>2,723</b>      | <b>15.8%</b>         | <b>-19.8%</b>    |
| <b>Total</b>   | <b>17,554</b>     | <b>100.0%</b>        | <b>17,259</b>     | <b>100.0%</b>        | <b>1.7%</b>      |
| Source: IDC Worldwide Quarterly PC Tracker, October 11, 2016 |                   |                      |                   |                      |                  |

(The above numbers are from IDC which does always does a great job.)

The shipment gains are based on building up inventories, as hopes are now circulating for a huge holiday season particularly in the US. And a buildup of inventories is deemed essential to satisfy this sudden surge in expected demand.

Mac sales accounted for only 12% of Apple’s total sales of \$42.4 billion in the last quarter, and that share will likely fall further, as Apple continues with its transition to a company dominated by just one product.

Overall, we believe that all retail sales this holiday shopping season will be very disappointing. To me, the drop in computer sales confirms all the other negative signals that consumers are tapped out. And why shouldn’t they be. The average wage earner is making less, inflation-adjusted, than 35 years ago.

Retailers will have huge inventories, and the big sales will start before Christmas. So wait with your shopping.

Wishing you successful investing,

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Bert Dohmen,  
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