WHY IS THERE A SHORTAGE OF IPHONE 7?

When Apple management announced that the iPhone 7 was sold out, the stock soared about 14%. That's an increase in market value of over $80 billion. We call that a windfall from a shortfall.

We were skeptical. We consider the reception of iPhone 7 lukewarm, certainly not enough for demand to soar above expectations.

However, there probably is a real shortage at the moment. But instead of being caused by big demand, couldn't it be due to a lack of supply?

We asked, what would cause a lack of supply? Certainly, Apple made sure that sufficient phones were ordered from the manufacturers. So we considered our recent stories on the bankruptcy of one of the world's largest container shippers, Hajin.

Dozens of their ships have been stranded around the world, many on the high seas, because going to port might have caused them to be seized for lack of payment for fuel, supplies, tug ships, etc.

It's estimated that these ships are carrying about **$14 billion** of supplies, including electronic items. One large ship, the GREECE, was stranded off of California for a week. It's a giant 1,145 ft. container carrier. It just started unloading recently at the port of Long Beach.

We ask, isn't it possible that the surprising announcement that Apple ran out of iPhones to sell is due to **delayed deliveries because of the Hajin bankruptcy?**

Obviously, Apple management would know. But no one seems to have asked. Given their past announcement, they once again found a way to make lemonade out of the lemons. Letting consumers and investors think there was a huge demand, resulting in being "sold out," really paid off…so far.

We remember the CEO of Apple last year talking about record sales in China. They probably were because so few iPhones were sold in prior years due to negotiations with the mobile phone carriers. This year we heard that iPhone sales in China crashed by more than 30%.

The motto is always: "Buyer beware!" Never jump to conclusions when top management makes an announcement. When the CEO of a company is on TV, I usually hit the "mute" button. These people are the designated 'public relations' guys. On the other hand, if a CFO is on, it's much more useful.

Apple observers found it strange when Apple announced that it won't be revealing the first weekend sales figures for the iPhone 7. This will be the first time Apple won't unveil that important number. If they were expected to be great, you can bet they would have decided to release them. Apple said: "These initial sales will be governed by supply, not demand, and we have decided that it is no longer a representative metric for our investors and customers."

An excellent analyst we know, who has been bearish on Apple for a while, noted that *"Carriers are offering steep promotions & trade in value, promotions that have not happened in the past. Verizon said pre-orders were at a similar level to previous years. Orange SA, France's biggest carrier, said orders were slightly higher than last year, but that it didn't have a supply shortage."*

There you have it. Investors are not entitled to know because Apple says so.

Today, the iPhone 7 became available in the stores. Many buyers had no trouble buying one, even without long lines, without a "pre-reservation," and with the hype this week that it was "sold out." How is that possible?

The bottom-line for investors is: BE CAREFUL. We would be careful about buying a stock with declining sales. Here is the chart of iPhone sales growth since December 2012 (courtesy of BGC):
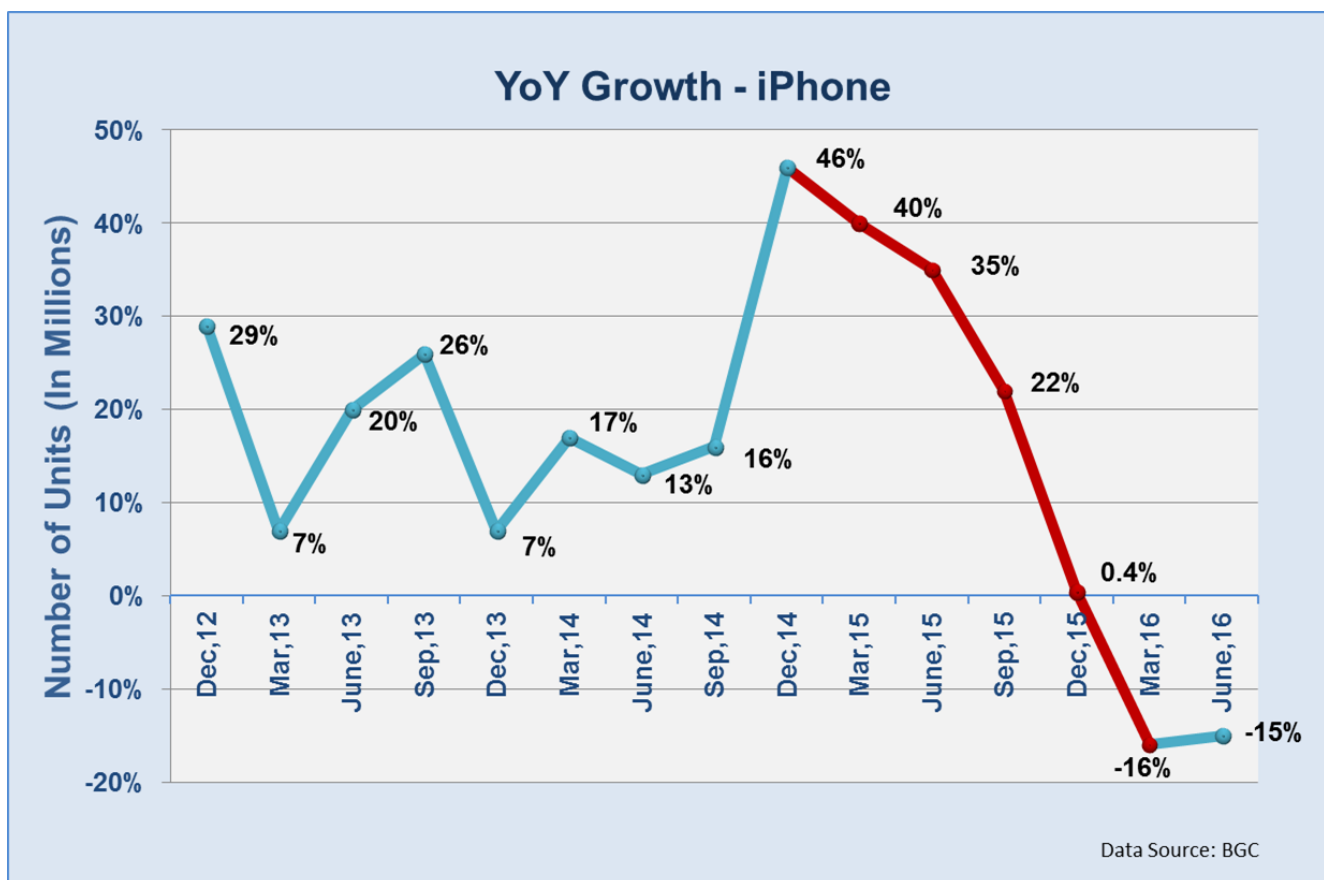
CONCLUSION: we don't see any excitement about the new iPhone. Even long-time iPhone users said on TV they feel no need to get the new phone just because you can drop it in the toilet since it is "water resistant." The camera is improved, but still far inferior to the camera on the new Samsung Galaxy.

I strongly recommend not to follow the knee-jerk reaction and the crowd. The winners are always in the minority.

Wishing you successful investing,

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