YOUR TECH STOCK HOT LIST:

BECAUSE INVESTORS CANNOT LIVE ON AAPL ALONE
TOP TECH PICKS POISED TO POP

Most people already know that the speed at which technology changes, evolves, and improves is incredibly rapid. Given the fleet-footed, exponential nature of the technology beast, many investors can feel overwhelmed about where to start to learn more about its many moving parts, let alone of investing in the sector on their own. So, we’ve asked the nation’s most respected and well-known newsletter advisors for their favorite tech picks to assist you.

As always, we caution you to use these ideas only as a starting place for your own research and only buy stocks that meet your own personal investing criteria, your risk parameters, and your time horizon.

More importantly, these tech stocks represent each advisor’s current outlook. As fundamentals change during the rest of the year, a favorite “buy” can become a “sell.” As such, it is up to each investor to monitor future developments in these stocks to be sure that the reasons behind buying them remain in place.

We would also emphasize the importance of diversification. No one advisor is always right and there is no guarantee that any individual recommendation will succeed; you can also minimize your risks by considering tech stocks featured in this report for only a portion of your overall portfolio.

We also encourage you to visit MoneyShow.com on a regular basis. Everyday, we feature new investment ideas from the top advisors. There’s no better way to follow the ongoing advice and favorite stocks from the very best investment newsletter advisors.

We wish you the very best for your investing for the rest of 2015.

Steven Halpern
Editor, Top Pros’ Top Picks
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3 WAYS TO PLAY WEARABLES: ARM HOLDINGS, INTEL, & QUALCOMM

I think this could be pivotal moment for the wearables industry. Time and time again, Apple has changed how we interact with and use technology.

However, some other behind-the-scenes players will capitalize on Apple’s ability to make wearables cool. Watches are just the beginning; the potential for wearables is boundless.

Companies that supply technology behind wearables will benefit and they might be getting overlooked right now. Here are three companies that will profit from the impending boom in wearable technology:

**Qualcomm (QCOM)**
Qualcomm is one of the biggest chip makers in the world and one of the biggest supporters of wearables. Pankaj Kedia runs the tech giant’s wearables business and has said, “This trend is not going away.”

The shares have been pressured of late due to issues in China and losing the chip business for the Samsung S6. The stock is now trading at a price-to-earnings ratio of 15, which is one of the lowest levels we’ve seen in the last decade.

However, Qualcomm still has plenty of growth opportunities when it comes to taking part in the growth of 4G handsets in emerging markets. Then, of course, there’s still the rapidly growing wearables market.

**ARM Holdings (ARMH)**
ARM Holdings is another chipmaker, so naturally it will be a part of the wearables boom, especially given that its expertise is low-power, high-performance chips.

The other beauty of ARM is that its chips will power the Apple Watch. And like Qualcomm, ARM will benefit by the continued adoption of smartphones.

But ARM is also focused on the Internet of Things, which goes beyond just the wearables market to connecting all your devices.

**Intel (INTC)**
Intel has been one of the feel-good stories in tech over the last year. Intel’s stock was stuck below $30 a share for over a decade, but the tech giant finally broke out.

Its stock is now up over 40% for the last 12 months. And let us not forget its 2.8% dividend yield, too.

Intel is the largest semiconductor company in the world. It has a massive research and development budget. But it dominates a less-than-sexy business these days, the PC chip market.

However, Intel has already debuted its first wearable computing system that can be used in wearables and smart clothing, so it’s making steps in the right direction.

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A TRIO IN THE CLOUD: AUTODESK, SALESFORCE, & TYLER TECHNOLOGIES

Software-as-a-service basically involves moving technology applications to the cloud, providing benefits both for the customer and for the software companies themselves. For the customers, it cuts down on the amount that they need to spend on their server infrastructure and other information technology investments.

It’s also highly scalable, so if you add new users, you don’t have to go through the installation process—it’s on a subscription basis. For the software companies, this subscription model offers a much more consistent stream of revenue.

Salesforce.com (CRM) is the largest software service provider. They generate most of their revenue from what they call their Sales Cloud, which is a sales force automation platform, allowing a sales team to come up with customer and prospect information on the road, from their phone, wherever.

What attracts me about the company is that they really seem to be gaining more traction among some of the larger companies out there in the world.

Autodesk (ADSK) is more of design for the real world. You can develop a 3D model of a new product or part for some industrial product. It’s used in architecture, engineering, design, manufacturing, those kind of things.

They’re the first company in this space to move over to some Cloud-based offerings. There’s a lot of different parties involved with designing and building a building, for example. The Cloud-based solutions enable everybody to have access to the plans.

It can really reduce the time from concept to execution, which has a real appeal to industrial and manufacturing companies. We really like the transition that they’re making and we also love that they’re winning market share.

Tyler Technologies (TYL) is a mid-cap software name. They serve the public market, such as municipalities. They dominate the software space for legal and judicial systems.

They offer this software-as-a-service for fee collection related to the court. People can pay their fines online, and Tyler will supply this software package for free to municipalities, court systems, and in exchange they get a cut of all the fees.

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BLUE-CHIP TURNAROUND AT BIG BLUE?

Our latest recommendation has seen its business suffer at the hands of disruptive cloud-based companies. Ginni Rometty—CEO of International Business Machines (IBM)—has been explaining to Wall Street analysts who follow the stock how she plans to reinvigorate growth at the company.

She recently said that she plans to spend $4 billion investing in “strategic imperatives” that include significant focus on cloud and security businesses.

IBM traditionally made its money serving huge corporations and governments with proprietary hardware and services, sold with long-term contracts. That is still the foundation of its business, but the areas in which Rometty is boosting spending are growing much faster.

Perhaps the analysts are not impressed, as the stock has not responded. For us, that's no problem since it allows us to lock in a slightly higher yield on a dependable dividend-paying stock trading at compelling discounts to historical valuations.

IBM shares took a beating last year, falling from $200 to $150. The shrinking top line is responsible. This year, analysts expect revenue to decline 7.6% to $85.7 billion and earnings to fall 3% to $16.02 per share.

The thesis here is that IBM has adapted to the market before and gone on to thrive. Besides its longevity, IBM’s rich pool of talent and the biggest trove of intellectual property in the world of technology prove that it’s quite capable of adjusting its business to adapt to changing markets.

Dividends have been paid regularly since 1962 and have been raised rapidly in recent years to the current quarterly payout of $1.10 per share. That's good for a 2.73% yield at current prices.

Looking at valuation, IBM trades at a 13% discount to its average price-to-sales ratio over the past five years. It also trades at a 10% discount to its five-year average enterprise value to EBITDA ratio. The discount to the average price to cash flow from operations is 12%.

There is no guarantee that IBM will quickly turn around its revenue problem, but history suggests that this blue-chip with a long history will figure it out eventually, and with this yield, we’re paid well while we wait for the turnaround to take hold.

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BREAKOUT DUO IN TECH:
INFINERA & MA-COM

As a technical stock analyst, I focus on breakout candidates, and below is a pair of technology stocks I believe are poised for upside gains.

**Infinera (INFN),** based in Sunnyvale, California, provides digital optical networking systems to telecom carriers, cable operators, and other service providers worldwide.

Infinera’s DTN system and PIC technology are designed to provide optical networks that provide operating simplicity, enhanced revenue generation, and faster time-to-service.

This year, analysts are forecasting a 45% jump in INFN’s earnings to 25 cents a share. For 2016, analysts predict a 78% jump in net to 44 cents a share from the anticipated 25 cents this year.

Institutional sponsorship is excellent. The largest fund buyer recently was the 5-star rated Lord Abbett Developing Growth Fund, which purchased 2.5 million shares as a new position. That is impressive.

INFN’s stock recently broke out to the upside, carrying the shares to a seven-year high. This is a speculative breakout most suitable for aggressive investors.

The largest fund holder is the 5-star rated Fidelity Growth Co. Fund, which purchased 102,000 shares recently. It has a big 9.4% stake.

**MA-Com Technology Solutions (MTSI),** based in Lowell, Massachusetts, produces analog semiconductors for use in telecom applications.

This fiscal year ending in September, analysts are forecasting a 48% surge in profits to $1.51 a share. The stock sells with a P/E of 23. We see that as low given the earnings growth outlook. So the stock is attractive to value-growth investors.

Going out to fiscal 2016 ending in September, the Street looks for a 33% jump in net to $2 a share from the anticipated $1.51 this year.

The largest fund buyer recently was the 4-star rated Pyramis Small Company Composite Fund, which purchased 593,389 shares as a new position.

The largest fund holder is the 4-star rated Fidelity Contrafund, which was a recent buyer of 8,763 shares.

MTSI’s stock has broken out from a six-week flat base. The move carries the stock to a new all-time high.

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DATALINK LINKS TO THE CLOUD

Technology moves at such a rapid pace that a company enjoying strong demand for the technology products and services it provides can quickly fall victim to the introduction of more efficient and cost-effective solutions.

Datalink (DTLK), a data center infrastructure and services provider, has experienced this first hand as newer flash-based storage models and rising cloud technologies have negatively impacted demand for its bread and butter storage solutions.

As a result, earnings in 2014 fell for the first time in five years. But this disappointing performance is overshadowing the actions DTLK has taken to address the evolving storage landscape and become a broader provider of IT infrastructure and services.

As these newer technology offerings started to emerge, DTLK began taking steps to expand beyond its traditional storage business and transform itself into a broader, more diversified provider of IT infrastructure and services over the past several years.

This has resulted in the addition of new collaboration, security, wireless, and networking products and services to the company’s portfolio, which enabled DTLK to successfully enter new markets—such as security and software-defined data centers—and increase its relevance with its customers.

We think the benefits of this success, coupled with a more favorable corporate IT spending environment, will result in a significant rebound in both earnings and share value in the current year.

DTLK acts as a one-stop shop for DTLK’s clients by providing them with all their data center infrastructure needs. Each solution is built using a customized platform of hardware and software from multiple technology vendors.

Further benefits from the company’s increasing scale, coupled with our expectations for better customer spending trends, is why DTLK expects organic sales to rise 8% after declining in the prior year and earnings to nearly triple to 17 cents per share in the current quarter.

We think this will set the stage for a much better year in 2015. As such, we are adding the stock to our core growth portfolio.

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FIRST TRUST IPOX-100 INDEX FUND: AN ETF FOR IPOS

I’m a big believer in IPOs. Initial offerings give entrepreneurs the opportunity to go from early-stage startups to publicly traded firms in just a few years. And you’d be hard pressed to find a better IPO environment than we have right now. Some 275 companies went public in the United States in 2014, the highest number in 14 years. Now is a great time for tech investors to take a good look at the First Trust IPOX-100 Index Fund (FPX), which tracks the market for IPOs and has long been one of my favorite exchange-traded funds (ETFs).

And I think every tech investor ought to consider holding it for the long haul. By doing so, you can grab the upside and excitement that IPOs offer without all the volatility inherent in new issues. In other words, let FPX’s fund managers do all the heavy lifting while you sit back and watch the profits pile up. Now, FPX doesn’t specialize in new tech stocks. Instead, it seeks to mirror the broad market for IPOs. And that’s a good thing. FPX gives us a good combination of tech stocks and an entry into the broader market. That makes it a great twofer in which 40% of the top 20 holdings relate to tech or the life sciences.

FPX, which holds 100 stocks, doesn’t invest in every new IPO that comes along. Instead, these are focused and disciplined managers who seek to balance high returns with stable investments. Indeed, FPX is weighted toward mid-caps, with a median market size of $5.6 billion. And the managers have been lucky enough to acquire stocks that cost just a little more than one times sales.

Over the past year, Facebook (FB) has remained FPX’s top holding, accounting for just under 10% of the fund. I can see why. Facebook continues to ramp up sales across the board.

In the most recent quarter, it reported 1.4 billion users (roughly the size of China’s population). It also has 700 million users for its WhatsApp servers, 500 million Facebook Mobile users, and 300 million people on Instagram.

But FPX has several other very impressive entries, including Alibaba Group (BABA), Splunk (SPLK), and NXP Semiconductors (NXPI).

Now trading at around $52, FPX is priced cheaper than many of its portfolio holdings. That’s why I think this is the single most cost-effective way for the average investor to cash in on the IPO boom.
Over the past two years, FPX has returned 51% to investors, beating the Standard & Poor’s 500 Index’s profits during the period by more than 40%. I see no reason it can’t do the same for the next two years, given how active the IPO market has become.

FPX fits in two of our investment categories. It’s clearly focused on companies that have a lot of growth ahead. And, at the same time, this is a sleep-easy investment, a solid tech foundational play that puts you on the road to wealth.

You may not have the secret membership card that gets you invited to the IPOs that come out on Wall Street, but you’ll soon find FPX to be the next best thing.

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HEWLETT-PACKARD: SPLITTING IN TWO

Founded in a garage in 1939, this company is one of America’s oldest and largest technology firms, well known for its PCs and printers. This year, Hewlett-Packard (HPQ) will undertake one of the most important strategic moves in its history when it splits into two companies: HP and Hewlett-Packard Enterprise.

HP will house Hewlett-Packard Company’s consumer-focused business—including PCs and printers—mature product categories with modest growth potential. This business generates significant free cash flow, suggesting that HP will pay a solid dividend. We also see the potential for steady share buybacks over time.

In the short-to-intermediate-term, HP should benefit from the refresh cycle underway in the PC market, as households and businesses replace older computers with new models. Many held off on these upgrades in the wake of the 2007-09 downturn.

HP’s 3-D printing business shows long-term promise, with the company planning to roll out a high-end commercial model that designers can use to prototype new products.

Meanwhile, Hewlett-Packard Enterprise will focus on selling servers, data-storage devices, and networking equipment to business customers.

Corporate restructurings of this nature often produce big gains for shareholders, before and after the transactions takes place. We expect Hewlett-Packard Company’s split to follow this pattern.

HP’s strong cash flow profile suggests that the firm will shoulder most of Hewlett-Packard Company’s debt load, freeing relatively unencumbered Hewlett-Packard Enterprise to pursue acquisitions.

HP will appeal primarily to income-seeking investors, while Hewlett-Packard Enterprise will become more of a growth story. The stock could be worth a combined $60 per share after the split. Hewlett-Packard Company joins our Wealth Builders portfolio.

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INTEGRATED DEVICE: TECH TRANSFORMATION

Over the last few years, Integrated Device Technology (IDTI) went through a transformation including discontinued operations, asset sales, and special charges. Despite this, sales held their own.

So what does Integrated Device do? The firm is involved in wireless charging, which means putting your smartphone on or near a recharging surface to recharge it without the need to plug each into its own charger.

IDTI was early into this market and is positioned right in the heart of it. Now the phone or notepad, of course, has to be capable of wireless recharging; these devices need to contain the appropriate technology and semiconductors to do this...as will soon be common place.

Long story short, IDTI is on the leading edge of supplying the semiconductor solutions on both sides of making wireless charging possible.

Meanwhile, these devices not only require recharging, they also require communication with all the various sources of content. And IDTI is right in the thick of all of these areas.

This focus on these rapidly growing markets is no accident, which gets us to the company’s major transformation. A few years ago, the company determined that it was all over the place and needed to focus on a few major, high-growth areas.

So, beginning in 2012, the company began to shed businesses outside its core area. And with that process winding down, in January 2014 it brought in a new CEO to replace the temporary CEO.

And Greg Waters is no slouch; he was the executive vice president and general manager for Skyworks Solutions (SWKS) from 2003 to 2012 where he led their front-end solutions business to a decisive #1 industry position.

So, bottom line, today IDTI is lean, ripped, and keenly focused for the future. As far as EPS goes, I like the trajectory. I see 25% growth to $1.10 for the year ahead. And analysts see at least that growth rate for the next 3-5 years.

As a result of its transformation, adjusted operating margins climbed from 5% to 20% in FY3/14. IDTI has amassed $511 million in cash, which it actively uses to buy back shares. In my book, these shares rate a strong buy.

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INTEL & THE INTERNET OF THINGS

Over 30 billion devices—including things like home thermostats and appliances—will be connected to the Internet by 2020. That means you’ll be able to control them with a smartphone; set them up to adapt to factors like outside temperatures and have them notify you if, for example, there is smoke or carbon monoxide in your home.

This is known as the “Internet of Things.” The best way to profit from it is with companies that already power much of the Web’s infrastructure.

Intel (INTC) is the world’s leading computer chip maker. Its products power 80% of all personal computers.

The company continues to benefit as businesses upgrade their computers after Microsoft stopped supporting its old Windows XP operating system. Strong demand for Internet services has also spurred sales of server computers.

As a result, Intel’s 2014 sales rose 6.0%, to $55.9 billion from $52.7 billion in 2013. Earnings jumped 21.7%, to $11.7 billion, or $2.31 a share, from $9.6 billion, or $1.89.

Intel continues to invest heavily in new chips. It spent $11.5 billion (or 20.6% of its sales) on research in 2014, up 8.7% from $10.6 billion (or 20.1% of sales) in 2013.

A large part of this spending is going into chips for smartphones and tablet computers. Intel installed its chips in 46 million mobile devices in 2014, well ahead of its target of 40 million.

However, it had to offer subsidies to get manufacturers to switch from other chips, causing its mobile chip business to lose $4.2 billion in 2014. But Intel expects this business to earn a profit in 2015, thanks to upcoming chips that will sell without subsidies.

Intel’s strong balance sheet will let it keep investing in new products. It holds cash and investments of $21.2 billion, or $4.37 a share, and its $12.1 billion of long-term debt is just 7% of its market cap.

The company will probably earn $2.37 a share in 2015 and the stock trades at 14.3 times that forecast. The $0.96 dividend yields 2.8%. Intel is a buy recommendation.

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INTERNET OF THINGS LIFTS SKYWORKS

By Charles Carlson
Editor, DRIP Investor

The emergence of everything connecting to the Internet—autos, clothes, homes, etc.—is a huge plus for Skyworks Solutions (SWKS), as its products facilitate this connectivity.

Skyworks is also getting a big lift from demand for Apple’s new iPhone products, which feature Skyworks technology.

Of course, the big gain in the stock—the shares are up 165% since we featured it a year ago—begs the question, “Is it time to take profits?” I believe the answer is no.

Skyworks’ December quarter results were quite impressive. Revenue was up 59% year over year. Earnings were up 88%. Profit margins continued to expand and the firm had $1 billion in cash assets (around $5.40 per share) and no debt at the end of the quarter.

For the March quarter, the firm anticipates revenue of $750 million, up 56. The firm expects per-share profit of $1.12 versus $0.62 a year ago.

The bottom line is that the company continues to put up very impressive growth numbers and visibility for growth over the next several years is high. The current quarterly dividend of $0.13 per share should get a hefty boost in 2015.

Despite the big gains in 2014, these shares are not richly valued. The stock trades at 17 times the fiscal 2015 earnings estimate of $4.88 per share and that estimate will almost certainly prove conservative.

And, when you wash out the $5.40 per share in cash on the books, the forward price-earnings multiple drops to less than 16. I remain a big fan of these shares even after the rise in the stock price and would be a buyer of the stock.

DRIP investors should note that Skyworks Solutions offers a direct-purchase plan whereby any investor may buy the first share and every share of stock directly from the company.

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JUNIPER JUMPS ON THE INTERNET OF THINGS

This year, an estimated 25 billion Internet-enabled things will be connected to the Internet and to each other and in the next five years, that number will double again.

**Juniper Networks** (JNPR) sells routing and switching gear to corporations. In addition to the routers and switches that direct traffic on the Internet, the company also provides software, tech support, and training.

Juniper is often considered a smaller version of **Cisco Systems** (CSCO). But that comparison is not exactly accurate. For one, Juniper has a less-diversified product line. Roughly 50% of sales come from routers, a segment that makes up just 17% of Cisco sales.

Anecdotal evidence suggests Juniper is doing better than Cisco in the Internet of Things (IoT) space. Juniper is more aligned with the open-source movement, allowing its switching software to run on any router.

It may come as a surprise to learn that routing revenue has been weakening. In its latest quarter, Cisco reported routing revenues lower by ~8%, while they were ~13% lower in Juniper's latest quarter.

You may also be surprised to learn that Juniper shares are up around 10% since it reported that revenue decline. The shares rallied for two reasons: One, the decline wasn't as bad as expected.

And two, cost-cutting measures—introduced by activist investor Elliot Management—are working. The company reported $0.41 in per-share earnings when analysts were looking for $0.31.

Revenue came in a bit ahead of estimates. And even though gross margins fell year over year, operating margins actually ticked up slightly. That is a clear sign Juniper is operating with more efficiency.

Meanwhile, Juniper's biggest customer is **Verizon** (VZ), which recently announced it was increasing its 2015 CAPEX budget. The fact that Juniper gets 65% of its revenue from carriers may turn out to be a very good thing.

Juniper has $2 billion in cash and long-term debt of $1.35 billion. It is also buying back shares. It bought back nearly $2 billion in shares last year and is expected to retire another $1.4 billion this year. That's substantial for a $10 billion company.

We view Juniper Networks as a solid play on increased CAPEX spending and mobile carrier network upgrades. We consider Juniper Networks a strong buy under $24. Our 12-month price target is $31.

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MERGER BOOSTS BOTH ZILLOW & TRULIA

Traditional advertising in the real estate industry is rapidly losing market share to online channels. The share of broker spending on newspapers fell from 34% in 2011 to 12% in 201.

**Zillow (Z)** and **Trulia (TRLA)** rapidly disrupted the US real estate agent advertising market with consumer-focused innovation. At the same time, the companies intensely fought each other to win the category outright, with neither gaining a commanding lead.

We expect the recently closed merger between Zillow and Trulia to fully unlock their potential. Rapid consumer-friendly innovation and brand-building efforts have made Zillow and Trulia go-to sources for real estate information. The combined entity controls roughly 60% of real estate portal revenue.

Online advertising has expanded to around 30% market share, with the majority of that in search and the rest at individual agent and real estate brokerage Web sites and real estate portals.

The real estate advertising market is estimated at $27 billion in the US. Zillow and Trulia have primarily focused on the $7 billion-$8 billion spent annually by real estate agents to generate leads.

The companies are seeking to expand into the remainder of the advertising market, which includes mortgage providers and rental properties.

Overall, Zillow has built a powerful brand within the real estate industry and has done a tremendous job of growing Web site and mobile traffic.

Additionally, the firm has a cost advantage over other Internet portals and brokerage Web sites because its size allows it to spread marketing, technology, research, and administrative costs over a larger revenue base.

Zillow does face some challenges. There is an ever-present but low-probability risk that Zillow could lose a large number of listings without being able to replace them. The rapid rate of industry innovation also gives us pause, as there is a risk of a new company offering a superior customer experience.

After the merger with Trulia, we value Zillow at $123 per share. We forecast the combined company to experience rapid growth in both the number of agents advertising on its Web sites and the average revenue per agent, driven by a growing consumer audience, improved conversion ratios, and pricing increases.

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MICRON: DEMAND FOR DRAM

This featured buy recommendation is one of the world’s leading providers of advanced semiconductor solutions; it manufactures and markets a full range of DRAM, NAND Flash, and NOR Flash memory.

**Micron Technology (MU)** was founded in 1978 in a basement of a dentist’s office. The company started as a semiconductor design firm with the goal of eventually manufacturing their own chips.

In 1980, they received financial backing from J.R. Simplot (founder of the largest shipper of fresh potatoes in the US) and Allen Noble. The company went public in 1984.

Two products make up more than 90% of the company's sales: DRAM and NAND flash. DRAM is the memory that is inside a PC/laptop computer.

Mobile DRAM is memory designed for smart phones, GPS devices, and handheld devices. Micron’s market share of the DRAM market is currently 29%. We project that Micron’s share of the market could increase through acquisitions.

NAND flash is memory used in typical USB drives or mobile flash cards, which made up 27% of the company’s sales in 2014.

Demand continues to be robust. Tablets and mobile devices are driving demand for DRAM and NAND flash memory.

Micron lowered its revenue estimate for the next quarter, not because of weakening demand, but instead due to upgrading its production lines with new technology.

Over the short-term this will impact revenue and earnings, but Micron is taking short-term pain for long-term growth.

They are implementing this during a seasonally slow demand period. Micron’s SDRAM memory chip is one of two manufactures that are used in the iPhone 6.

The company's target model going forward is to see an expansion in enterprise storage, mobile, and servers. During the last quarter, revenue was up 8% from the previous quarter, gross margins increased from 32% to 36%, and they generated close to $1 billion in free cash flow.

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MICROSOFT: TURNING A BIG SHIP

Investors should remember that big ships turn slowly and this recommended stock is a very big ship indeed. Microsoft (MSFT) is stepping up its game. The release of Office 365 likely represents the biggest strategic move by the company in years. Forget about the acquisition of Skype, the purchase of Nokia’s phone business, and even the introduction of the Xbox.

The future of Microsoft is exemplified by Office 365 and it appears to be working. In the last quarter, commercial cloud revenue rose by 114% year-over-year, confirming that the company’s strong push into cloud computing is paying off.

The key innovation with Office 365 is that it is designed to work across all devices. That means it works with Apple iPads, iPhones, and MacBooks, as well as devices that run Android. This is a huge deal because it finally allows virtually everyone out there to use Windows again.

The announcement that Microsoft won’t charge for users to upgrade from Windows 7 and 8 to Windows 10 is yet another sign of its commitment. Microsoft is trying hard—very hard—to make it possible for anybody with a phone, tablet, laptop, or PC out there to be a customer. I believe it will succeed.

And I fully expect revenues and earnings per share will grow at 10% to 15% over the coming years. That growth should handily outpace that of the S&P 500, yet Microsoft still trades at a discount on a price-to-earnings basis.

I don’t expect that disconnect to last much longer. Already we’ve seen a rapid rebound from the post-earnings drop. And I expect that shares will continue to move higher in 2015.

Yes, I know Microsoft recently reported a 9% decrease in quarterly earnings. And management lowered current quarter revenue guidance by $3 billion below what analysts were expecting.

But this is all noise in an otherwise strong push by Microsoft to reassert its dominance. With the stock at $43.50, yielding 2.8%, and trading with a forward P/E below 15, it’s hard to argue against Microsoft.

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MOBILEYE: CAMERA-ASSISTED DRIVING

Despite the drop in gas prices, the auto industry remains committed to long-term fuel efficiency improvements such as Advanced Driver Assistance Systems (ADAS).

One of the beneficiaries of this development, in my view, is Israel-based Mobileye (MBLY), which designs and develops software and related technologies for camera-based ADAS.

With its camera-based monovision system, Mobileye offers a cost-effective solution that provides the ability for users to drive more fuel efficiently through measures like adaptive cruise control.

Its systems can perform detailed interpretations of the visual field to anticipate possible collisions with other vehicles, pedestrians, cyclists, animals, debris, or other obstacles.

The National Highway Traffic Safety Administration has announced that it plans to add two automatic emergency breaking systems to its list of recommended safety features as a “strong endorsement” that may raise consumer demand.

With customers that include Ford (F), Mazda, and GM (GM) among its 21 auto customers, Mobileye is poised to prosper from not only this regulatory mandate, but also the move toward more safety and reliability features that will drive greater dollar content inside cars and trucks.

The burgeoning market for automated-and-assisted-driving technology should be worth some $25 billion by 2020, compared to $6 billion today.

This backdrop of favorable fundamentals should allow Mobileye to deliver strong top and bottom line growth in the coming years.

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NEW TOP TEAM BOOSTS IMPERVA

While short-term focused traders want instant gratification every quarter, this small-cap recommendation is way more concentrated on the long-term—getting growth back on track and building out its cloud business.

**Imperva (IMPV)** is a data center security solution firm. A careful listen to its Q4 earnings call reveals management was holding back a bit when it issued 2015 revenue guidance of $195 to $200 million (growth of 19% to 22%), below the consensus estimate of $200.4 million.

The simple fact that Imperva is guiding to 2015 midpoint revenue growth of 20.5%—only slightly above the 2014 growth rate of 19%—indicates that there is room for upside surprises.

If Imperva can deliver revenue growth of 19% in an extremely tough year like the last one, it is capable of big improvements in 2015.

Just the installed base alone of 3,700 customers represents plenty of potential because less than a third of its accounts have bought more than one of its products.

Meanwhile, a lot of the top team is fairly new to the company and doesn’t want to disappoint. Imperva also has a new chief marketing officer as well as new VPs of sales for the US East and West Coasts.

CEO Anthony Bettencourt only joined last August, while Mike Mooney, the chief revenues officer, was hired in October. Mooney, a veteran of Hewlett-Packard Autonomy unit, has more than 25 years’ experience leading and building enterprise sales organizations. He has already made meaningful changes here.

One key revision is a new sales force compensation plan meant to boost both product and subscription sales. While subscription revenue in 2014 accounted for just 14% of total revenue, it expanded 107%.

The company continues to add customers at a rapid clip, bringing on a record 245 new accounts in the latest quarter.

With the expectation bar reset downward going into an easy comp period, Imperva is positioned to start stringing together beat-and-raise quarters, something that would be appreciated by both short- and long-term investors.

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OBERTWEIS SMALL-CAP TECHS: INFINERA & SUPER MICRO COMPUTER

Here are two new featured tech ideas for risk-oriented investors, one in optical transport networking and the other in high-efficiency service technology.

**Infinera Corporation** ([INFN](https://www.nasdaq.com/)) manufactures the world’s only commercially-deployed, large-scale Indium Phosphide PICs, which are used as a key differentiating component inside the company’s platforms and allow transmission speeds in excess of 100 Gigabits per second.

Service providers are increasingly looking for new network architectures to respond to continued demand for bandwidth across their networks.

These architectural changes include scaling optical transmission capacities beyond 100 Gbps and integrating OTN switching capabilities within the optical transport network platform, requirements that are met by Infinera’s DTN-X platform.

In the company’s latest reported fourth quarter, sales increased approximately 34% to $186.3 million from $139.1 million in the fourth quarter of last year.

Infinera reported earnings per share of $.13 in the latest reported fourth quarter versus a loss in the same quarter of last year. Clients of Oberweis Asset Management own approximately 20,000 shares.

**Super Micro Computer** ([SMCI](https://www.nasdaq.com/)) provides end-to-end green computing solutions to the data center, cloud computing, enterprise, big data, and high performance computing markets.

Its systems are designed to provide high levels of reliability, quality, and scalability, enabling customers benefits regarding performance, density, thermal management, and power efficiency to lower their costs.

Consolidation within the industry—and disruption at competitors—has allowed the company to gain market share, particularly at the high-end, where gross margins are stronger.

In its latest reported second quarter, sales increased approximately 41% to $503.0 million from $356.4 million in the second quarter of last year.

Super Micro Computer reported earnings per share of $.65 in the latest reported second quarter versus $.35 in the same quarter of last year. Clients of Oberweis Asset Management own approximately 34,000 shares.

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QUALCOMM: QUALITY AND FINANCIAL STRENGTH

In 1985, seven industry veterans discussed the idea of building “Quality Communications” and four years later introduced CDMA (Code Division Multiple Access), a commercially successful digital technology for wireless communications.

Indeed, CDMA was highly successful, and their new company—Qualcomm (QCOM)—has rapidly grown to become a world-leading provider of wireless technology and services with revenues topping $26 billion.

Qualcomm continues to lead in the development and commercialization of CDMA technology; nearly 30% of 2014 revenues was derived from licensing and royalty fees.

In addition, Qualcomm is the world’s largest fabless semiconductor producer and the largest provider of wireless chipsets and software technology, which power the majority of all 3G/4G (third generation/fourth generation) devices available today.

Qualcomm’s wireless innovations enable new generations of increasingly powerful smartphones, computers, tablets, and consumer electronics. Sustained long-term growth opportunities will come from new mobile computing applications, emerging market growth, and increased data traffic.

Qualcomm’s highly profitable operations have generated strong cash flows. Free cash flow more than doubled over the last five years to $7.7 billion at the end of fiscal 2014.

During the 2015 first fiscal quarter, management returned $2.4 billion of cash to shareholders through $697 million in dividends and $1.7 billion in share repurchases, ending the quarter with $31.6 billion in cash and investments on a debt-free balance sheet.

Qualcomm recently reached a resolution with China, agreeing to pay a $975 million fine in connection with an anti-monopoly investigation.

The company expects fiscal 2015 revenues in the range of $26.3 billion to $28 billion with EPS in the range of $3.56 to $3.76, including the $0.58 charge related to the fine. Long-term investors should check out Qualcomm, a high quality technology leader with outstanding financial strength. Buy.

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QUALCOMM: WIRELESS BARGAIN

Our latest featured stock manufactures and markets digital wireless telecom products and services based on CDMA technology for wireless voice and data communications.

 Qualcomm (QCOM) also licenses many of its 5,700+ patents and intellectual property to manufacturers of wireless equipment.

 Qualcomm’s integrated circuit chipset, called Snapdragon, helps power the iPhone 5 and Android-based smartphones. Its technology is also used extensively in notebook and tablet computers.

 Qualcomm continues to benefit from the rapid growth of 3G (third generation or Tri-Brand 3G) wireless technologies and smartphones in emerging markets, including China.

 The next-generation super-fast 4G Long-Term Evolution (LTE) technology will be quickly adopted in many parts of the world. Qualcomm is now the leading provider of LTE technology.

 A regulatory investigation by the Chinese government has finally ended in a settlement. Qualcomm will pay a fine of $977 million.

 The company will continue to charge royalty rates of 5% for 3G devices and 3.5% for 4G devices. However, the royalty base on which royalties are charged will fall from 100% of the net sale price to 65%.

 Qualcomm will now be able to go after Chinese mobile device makers who owe the company royalties, after they refused to pay royalties until the case was settled. The settlement is fair and will likely lift a cloud over Qualcomm’s stock price.

 Potential growth in 2015 is significant. There are seven billion cellular connections in the world and two-thirds are 2G. This provides Qualcomm with substantial potential to upgrade systems to 3G or 4G technology.

 At 13.9 times current EPS, QCOM shares are a bargain. The balance sheet is very solid with no debt and lots of cash targeted to fund research and expansion. I expect QCOM to reach my minimum sell price target of $95.45 within one year.

 Subscribe to Cabot Benjamin Graham Value Investor here...
RINGCENTRAL: A BIG IDEA

As the name of his newsletter suggests, David Fried focuses exclusively on stocks that are actively repurchasing their shares. One such recommendation is a provider of cloud-based phone systems for small businesses.

RingCentral (RNG) offers cloud-based phone systems that make it easier to manage and more flexible than on-premise traditional hardware-based phone systems, and serves today's mobile workforces better. It's based in San Mateo, California, and has more than 300,000 customers.

RingCentral is also useful as a way to streamline communications among different locations and scale up efficiently as business grows.

An example from a real-world business might help explain it best: Pacific BMW, one of the largest BMW dealerships on the West Coast, replaced an antiquated on-site PBX system that had only basic desktop voice service and which crashed several times a year.

With RingCentral, the dealership has smartphone support, text, and video (HD video meetings, conferencing) to improve efficiency. The mobile app keeps employees accessible to customers and colleagues.

Calls made to employee business numbers can be automatically routed to their mobile phones, for example (without having to give out a personal cell number).

Last year, the company received “The Big Idea Award,” given to the most disruptive business model in the past 12-18 months at the International Business Forum Venture Capital Investing Conference in San Francisco.

Q3 2014 revenue increased 36% year-over-year to $56.9 million. Total annualized exit monthly recurring subscriptions were up 37% year-over-year to $219.8 million.

RingCentral Office annualized exit monthly recurring subscriptions were up 53% year-over-year to $153.7 million and net monthly subscription dollar retention was over 99%. RNG reduced shares outstanding by 9.13% in the past 12 months.

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TECH TRIO FROM DOW THEORY: CDW, CORNING, & NVIDIA

By Richard Moroney
Editor
Dow Theory Forecasts

With fourth-quarter earnings season now in the rear-view mirror, we are adjusting our stance on a handful of stocks—including these three technology issues.

We are upgrading Corning (GLW) to the Focus List, mostly because of the stock's improving operating momentum, modest expectations, and low valuation.

Per-share profits, revenue, and cash from operations all rose at least 24% last year, while free cash flow surged more than 150% to a record $3.04 billion.

At less than 15 times trailing earnings, the stock trades 27% below the median for S&P 1500 electronic-components stocks. Shares also seem unduly cheap relative to operating cash flow and free cash flow. Corning, a supplier of glass for electronic devices, is also a Long-Term Buy.

Nvidia (NVDA) has already carved out a strong position in mobile devices and personal computers for its semiconductors that power graphic displays. Now it is tilling new fields of growth in the automobile and data-center markets.

More than 7.5 million cars use Nvidia's semiconductors, up 60% from a year ago, and the company is designing technology that could help pave the path for self-driving cars.

The shares look attractive at 16 times trailing earnings, a 20% discount to their five-year average and 28% below the median for S&P 1500 semiconductor makers. Nvidia is being added to the Focus List.

CDW (CDW) is joining the Long-Term Buy List. Earning an overall score of 97 out of 100, CDW supplies hardware and software products to more than 250,000 companies, government agencies, educational institutions, and health-care facilities.

Sales growth has accelerated in the past couple years, and CDW is improving its returns on assets and investment. Operating cash flow grew 19% in 2014, providing plenty of capital for dividend growth and stock buybacks. Rising analyst estimates project 14% higher per-share profits for the year.

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THE “OUTLOOK” FOR COMMUNICATIONS: ALCATEL-LUCENT, CIENA, CISCO, F5 NETWORKS, JUNIPER, & PLANTRONICS

S&P Capital IQ's fundamental outlook for the communications equipment sub-industry for 2015 is positive. The continued rapid consumption of network capacity, buoyed by the proliferation of tablets and smartphones, is a solid long-term growth driver for the industry, and we see an improving operating outlook in 2015.

While near-term industry spending may be choppy with industry consolidation, we see strong positive secular demand trends toward cloud computing, wireless, visualization, and data center transformation.

In the service provider segment, near-term equipment sales, particularly for optical components, are beginning to improve.

While carriers have been cautious over the past several years due to the economy, we think spending will increase in 2015 as new technologies such as Long Term Evolution (LTE) in the wireless space and 40G and 100G in the optical space gain commercial traction.

In 2015, we also believe spending priorities are shifting to the early stages of the fifth generation for wireless applications coming from a rapid rise in mobile broadband and increased use of smartphones and tablets.

In 2015, the enterprise segment should gain widespread acceptance with data center consolidation, server virtualization, and cloud computing.

The industry is undergoing a technology shift toward convergence, where customers require a platform to offer computing, networking, storage, and other applications all in one box.

As a result of this trend, market segments have become more intertwined, with traditional data networking companies finding themselves in competition with server and computing players.

We expect the need for integrated solutions to continue to push companies this year to aggressively partner or acquire missing technologies going forward.

Our recommended stocks in this sector—those which earn our 4 or 5 star buy ratings are Alcatel-Lucent (ALU), Ciena (CIEN), Cisco Systems (CSCO), F5 Networks (FFIV), Juniper Networks (JNPR) and Plantronics (PLT).

Subscribe to S&P’s The Outlook here...
TRIPLE PLAY ON CYBER SECURITY: CACI, CHECK POINT, & RAYTHEON

Computer hacking—and the enormous threat it poses to individuals, companies, and governments—is a big and ever-present downside to the Internet age.

The urgent need to protect information has spawned a burgeoning cyber security industry dedicated to keeping secrets and data safe.

Given the potential for havoc that computer hackers can wreak, it’s no exaggeration to view this as comparable to fighting a war. We think investors should have a stake in this war, as long as they’re careful to back the right warriors.

The best approach is to focus on companies that have been through more than one war and are still standing. If anything, be more conservative in this arena than in others, casting a skeptical eye on new companies and on companies whose stock price is valued based on expectations of explosive long-term growth.

The stocks below are all reasonably valued in view of solid long-term records and reasonable future PEG ratios and each has a high free cash flow yield.

Despite its relatively small size—$3 billion in revenues—CACI International (CACI) is a true franchise, defined as having a strong or controlling position in an area with major barriers to entry.

With more than 20 years of carrying out sensitive military assignments, CACI is always a leading contender for highly classified projects, including cyber protection and ferreting out cyber criminals.

The company’s unique position in a broad swath of highly sensitive government work—focused mostly on the Department of Defense—has translated into consistent low-teens growth over the past 15 years, despite defense budget cuts.

Its stunningly high free cash flow yield—a long-term characteristic—will translate into share repurchases and niche acquisitions. Buy the stock for its exceptional long-term record and potential.

Raytheon (RTN) is the defense company with the greatest electronic sophistication and the one that—via acquisitions and internal growth—has been most dynamic in cyber security.

Its intelligence and information division, devoted mainly to cyber issues, has more than tripled in size during the past four years. The other three divisions of this major defense player are also critical in an increasingly conflict-prone world.

One of the most widely recognized players in cyber security is Check Point Software Technologies (CHKP), which provides enterprise software systems dedicated to detecting and eliminating cyber threats.
Measured by market cap and revenues, it's the largest player in that arena. It has the leading market share in corporate firewalls and offers the most scalable architecture.

Growth has accelerated over the past five years, suggesting that our projection of 13% growth could prove conservative. As a core holding in cyber security, Check Point is the clear choice.

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**TWITTER TALK**

This one-of-a-kind company—responsible for Tweets—offers a one-of-a-kind service that's producing rapid (nearly triple-digit) revenue growth and skyrocketing earnings as the firm monetizes its base of 288 million users.

Throw in tremendous trading volume, which allows institutional investors to buy and sell freely, and that's why Twitter (TWTR) has surged recently, stocks with all of these sterling characteristics don't grow on trees.

The company's fourth-quarter report was very strong: timeline views grew a solid 23% from the prior year (to 182 billion), and thanks to myriad new and innovative advertising products and initiatives, ad sales per timeline view surged 60%.

The only remaining worry here is whether Twitter's user base has topped out (it actually fell a few million from the prior quarter), which would obviously limit future growth.

But management said the December drop in users was mainly from an update in Apple's software (i.e., a one-time event) and that user growth should resume in the quarters to come.

Yes, the valuation is high, but the top brass has already guided to a huge 2015 (revenues up 65% and even that is likely conservative).

And despite the recent growth, Twitter's users are being monetized significantly less than users on Facebook (FB) and other social media, so there's plenty of room for growth. It's a big story and a potential liquid leader.

The only hitch with TWTR is the chart. While there's been a lot of strength recently thanks to the well-received quarterly report (the stock surged 16% on five times average volume), there's also plenty of overhead resistance from last October (in the $50 to 55 area) and last January (way up near $70).

Our advice: Start small with a half-sized position around here or on dips, use a loose stop near $42, and look to buy more should TWTR march higher from here.

Subscribe to Cabot Top Ten Trader here…
USA TECH: CASHLESS CONSUMPTION

One way to play the trend toward “cashless consumption” is with the developing move to mobile payments.

Through the end of February, Chase Bank activated 1 million Apple Pay accounts. At Bank of America, 800,000 of its customers have started using Apple Pay. In total, more than 100 banks, credit unions, and other institutions are now supporting Apple Pay.

Retailers and other points of sale need to be able to transact with these mobile payment services in order for a consumer to complete his or her purchase.

This leads me to my sleeper recommendation on Apple Pay. It’s a far more speculative recommendation than I generally make. But when I look at this sea change, it’s a risk worth taking.

USA Technologies (USAT) has been working in cashless transactions for years. If you’ve paid using a credit or debit card at a vending machine, odds are high that transaction occurred because of products offered by USA Technologies.

During the last decade, USA Technologies has been developing its mobile payment capabilities and, recently, the company entered into a partnership with Apple that will expand the availability of Apple Pay to “self-service retail locations.”

The initial rollout will be to around 200,000 self-serve payment terminals that its customers use for everything from coffee brewers to vending machines, kiosks, laundry equipment, and pay parking terminals.

This puts USA Technologies on the path to its goal of doubling its revenue to $100 million during the next three to four years. From my perch, that growth will drive a big move in earnings, cash flow, and book value.

Moreover, as the number of companies offering Apple Pay grows, so too will USA Technologies’ customer base.

Prior to the deal with Apple, that base was roughly 8,500 in size and growing both in terms of customer count and the number of transaction connections across the customer base.

The fact that USA’s solutions work with credit and debit cards, as well as contactless, mobile payments, makes it an easy solution for its customers to adopt.

I see upside to at least $4 a share during the coming 12-18 months as the Apple Pay and other mobile payment relationships take hold. This company could also be taken over by other players as they look to shore up their mobile payment processing position.

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