



WEB comment

Are There Profits In The Clouds?

(05/15/09) An increasingly popular topic in the technology world is “cloud computing.” I’d like to walk you through what I believe are some of the important investment implications of this concept. For a more detailed explanation of the subject you can go to Wikipedia.com or Whatis.com.

To abbreviate Wikipedia’s definition: “cloud computing” is a style of computing that is scalable, often virtualized, and provided as a service over the Internet. This means companies can use web-based resources to supply many of their computing needs rather than purchase equipment and software on premises.



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One advantage is you can utilize just what you need, even if your demand rises and falls fairly dramatically. Another plus is cost. You aren’t purchasing equipment and software that involves a major upfront expenditure and may end up under-utilized. Also important is its availability to desktops in various locations. It is accessed via a web browser. And, when software is upgraded, you don’t have to make the change yourself, it is done for you by the host provider.

The reference in the definition to virtualization has to do with the way a provider manages programs on its servers. Essentially, servers are partitioned into separated and isolated “virtual machines” which simulate multiple machines within one computer. Even different operating systems can run simultaneously within a “virtual machine.” Also, such machines can easily be migrated to higher level servers or cloned and deployed quickly in another setting.

Cloud computing services are supplied in three specific areas. The first is Infrastructure-as-a-Service. This takes form as computing capability managed by a provider and supplied to businesses. Amazon Web Services is the most often mentioned company currently providing this capability. Think about when you go to purchase a product from them. They offer their best price, but also allow others to sell on their network. Amazon maintains the infrastructure, but others get to use it.

Platform-as-a-service is the second cloud model. It provides a computing platform, such as hardware and software layers, used by developers for building and delivering web applications and services over the Internet. It is a fast and cost effective way for companies to get their applications to market.

Software-as-a-service is the third cloud model. In this case, a provider licenses a software application to customers as a service on demand, or as needed. Everything needed to run that software is supplied over the Web. Microsoft, SAP Business By Design, and Google Apps provide such services. Customers accrue efficiencies by reducing the cost of software licenses and computer equipment that may or may not be fully utilized throughout the day.

For important consumer information, please see next page.

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Hopefully, you've stayed with me this far. If so, it's important to recognize "cloud computing" as an important trend. There are still critical issues to work through regarding open architecture and security, but the concept is being utilized now and is expected to be expanded dramatically in coming years.

How do we know it is going to be big? All you have to do is note how leading companies have started to position themselves in recent weeks. Cisco Systems has announced it is going to start providing network servers. Oracle has announced its intent to acquire Sun Microsystems. It's generally believed they want the company's software and server products to better serve the "cloud computing" market. IBM unveiled new "cloud-based" products at its IMPACT 2009 conference last week and tightened its relationship with Amazon. Its most intriguing new product is a pizza-box size "WebSphere Cloud Burst" appliance. It even announced a private cloud service to provide companies with business process modeling (BPM).

The key players in this space are IBM, Microsoft, Oracle, Cisco Systems, and Hewlett-Packard. Those suppliers who provide the best products and services to this market will be positioned for years of success. Those left out will see demand for their software and servers reduced as customers use them more efficiently in a "cloud" environment.

I've provided this information to you because I believe you'll be hearing much more about "cloud computing" in the near future. Our goal is to identify stocks most likely to perform well as their companies win share and grow profits in this marketplace. Right now three – IBM, Oracle, and Cisco Systems -- are on our Select List. We will continue to track "cloud" developments to stay in front of this exciting, computing trend.

If you have any questions or comments, please contact me. And, of course, don't keep us a secret. Mention IAM to a friend, family member, or co-worker. We would be delighted if you shared our web comments with anyone you think would benefit from them.

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