

Seeking Alpha α

Buy Abbott Laboratories In The Near Future

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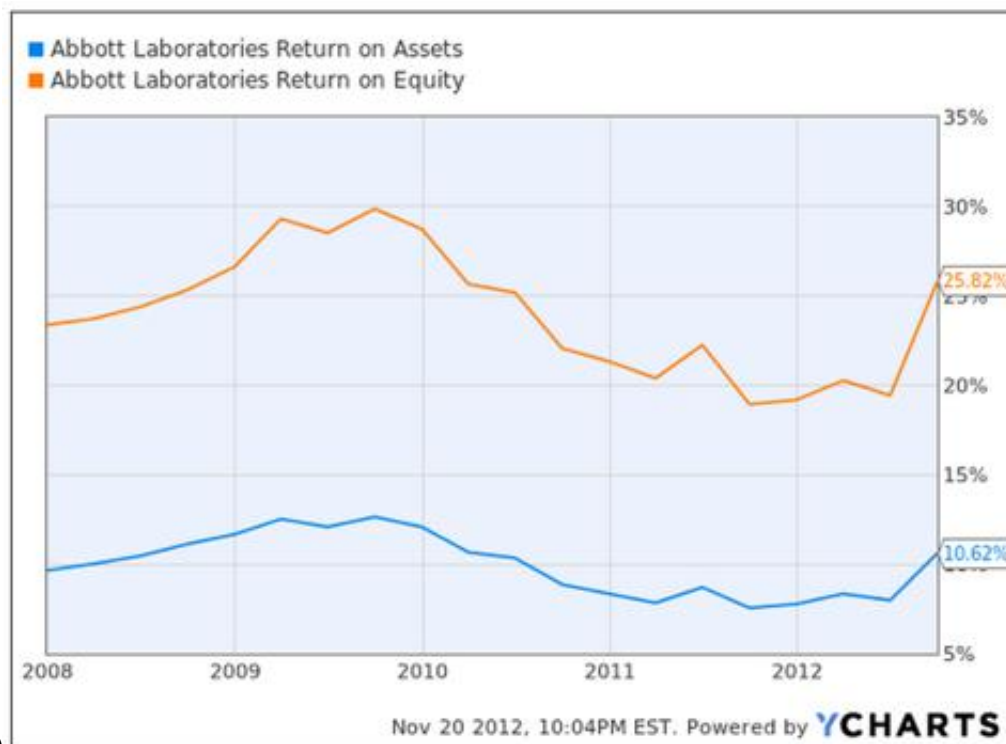
| about: [ABT](#)

Disclosure: I have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. **(More...)**

Since the beginning of the year, Abbott Laboratories ([ABT](#)) has delivered a 12% return. This excellent return has been coupled with a 3.23% dividend yield which has added to shareholder gains. Even though ABT has delivered strong performance over the course of the year, it has erased nearly 12% of gains over the past month and a half. Through this article, I will present the case that this pullback in share price represents a purchasing opportunity in a fundamentally strong organization.

A Breakout of Returns

In order to study ABT, I have relied heavily on return on assets and return on equity. Return on assets is the net income of the firm divided by average total assets. This ratio is very helpful for an analyst in that it demonstrates how efficiently an organization is able to translate assets into profits. Return on equity is the net income of the firm divided by directly-invested shareholder equity. Return on equity provides insight into the skill of management in using investments to bring income into the organization. In the chart below, 5 years of returns can be seen for ABT.



(click to enlarge)

Analysts are very fortunate when studying the history of this organization in that returns have trended fairly consistently throughout the years. Beginning in 2008, return on assets and return on equity increased until the middle of 2009, in a fairly uninterrupted uptrend. During this time period, Abbott Laboratories strengthened itself by generating a stronger return on its asset and shareholder investments. This period of strong performance was marked by share volatility in a reflection of global economic trends. In the middle of 2009, ABT reversed its multi-quarter fundamental improvement and began a process in

which returns declined until the third quarter of 2011. Over this time period, share price experienced volatility and oscillated around \$50 per share. During the fourth quarter of 2011, a fascinating development occurred in which organization returns began an uptrend. This uptrend was noteworthy in that ABT's stock experienced a strong upwards breakout on high volume in November of 2011. This breakout led to strong buying for the next 3 quarters and share price increasing by over 30% at its highs.

The most recent quarter of financial performance of ABT was excellent. Returns have surged to multi-year highs and in so doing, ABT has substantiated its recent gain in share price. Currently, ABT is able to deliver \$25 in profit for every \$100 of directly-invested shareholder equity and \$10 for every \$100 of assets. These returns are very strong and may continue in the future. As previously shown, returns tend to trend fairly consistently within ABT and it has been in a fundamental uptrend for the past year. I believe that it is entirely possible that the trend which began in late 2011 will continue into the coming business cycle. For this reason, I believe that the recent decrease in share price represents a buying opportunity in ABT. ABT has proven its ability to generate profits from its assets and equity and over the past year it has experienced a fundamental "bottoming" in which performance has markedly improved. I believe that investors seeking to purchase ABT may be rewarded with a strong return as the recent surge in price continues in the future.

Technically Speaking

Even though I advocate purchasing ABT, I do not believe that investors should immediately buy the security. The trend has been very strong over the past year, but the recent pullback should be a warning shot to any investor. Prices do not increase for ever and investors who are late to the show expose themselves to greater quantities of risk. ABT has technically ended its multi-month uptrend and investors would be wise to wait until a new upwards breakout has occurred. Through patience, a trader or investor can best position himself to profit from an increase in ABT's share price. Technically speaking, I believe that any week which ends above \$65 per share represents a purchasing signal. ABT has historically struggled with the price level of \$65 and over the past 5 months, both support and resistance has been found here 3 times. For this reason, I believe that many individuals view this level with added significance and I believe that a new trend will have started if price is able to overcome this threshold. In the chart below, I have graphically shown this critical level as well as the broken trend line which signals the end of the uptrend.



(click to enlarge)

