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What Do I Need to Know About RFID Stocks?

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Every other week, I get bombarded with investment pamphlets tooting RFID stocks. I tried to do some research on them, but there isn't much material out there. Are these stocks worth my time?
-- B.

RFID, or radio frequency identification, is one of those "hot" technologies that are often pitched to individual investors as the next great "growth" opportunity. But as with any fast-moving industry, there are some things to watch out for with RFID. Here's what you need to know.

The Technology

RFID is a system that uses small chips (called RFID tags) to identify items wirelessly. Despite the fact that RFID may sound like some kind of gizmo from the future, you might be more familiar with this technology than you think.

Today, RFID is used in all sorts of consumer applications. That E-Z Pass you use to get through tolls quickly uses it, credit cards like the **American Express** (AXP) "Blue Card" and **Exxon Mobile's** (XOM) "Speedpass" use it, and if you've been issued a U.S. passport in the past year, guess what -- you've got an RFID tag there too.

Governments are finding that RFID provides an effective solution to their security concerns, and companies like **Wal-Mart** (WMT) are starting to use RFID to manage their inventory control systems with better efficiency and lower costs. So as ubiquitous as RFID is becoming, would now be a good opportunity to make a play for some RFID stocks?

There are a few things that make RFID worth a look: it's gaining momentum in industry and government, it's a proven technology and it's well-suited to our economy right now. One of the biggest reasons for the recent popularity of RFID is security. It goes without saying that defense and security run pretty high on the national agenda, and with its implementation in U.S. passports, the technology is poised to prove itself on one of the most public security battlegrounds out there -- the nation's borders.

Rough Year for RFID

Despite reasons to believe that RFID's poised for lift-off, 2007 hasn't been a kind year to RFID stocks. Indeed, pretty much all of the "pure RFID plays" have seen a rough time: **Applied Digital Solutions** (ADSX) and **Digital Angel** (DOC) each saw share prices drop over 40% since January, and **Zebra Technologies** (ZBRA) and **Intermec** (IN) have experienced somewhat bumpy rides during those ten and a half months.

And despite the fact that RFID was proffered by some to usher in a new era of tech IPOs, **VeriChip** (CHIP) has lost over 30% since they went public earlier this year and **Alien Technologies** -- well, they actually withdrew their IPO filings because of market conditions (at least for now).

Not everyone in RFID is hurting, though. The OTC-traded Axxess International (AXSI) is up over 40% since January.

Whether or not RFID stocks are seeing a necessary correction or an ominous sign of things to come, it should go without saying at this point that you should at least approach RFID with a bit of caution.

Why RFID is Struggling

The RFID industry is still small enough that volatility is a big factor. Until RFID becomes more widely adopted, that's not likely to change. It's on its way, but it's not there yet.

Another thing to think about is the fact that many of the pure RFID stocks out there are penny stocks (to learn more about penny stocks, [click here](#)) which can add another element of risk to investing in this industry. Also, as large companies whose primary businesses are not RFID -- like **Texas Instruments** (TXN) and **Hewlett-Packard** (HPQ) -- pour lots of money into developing their own RFID businesses, pure plays may continue to struggle.

Researching RFID Stocks

If after hearing all the admonishments against RFID stocks, you're still interested in putting your money in this technology, consider this: when doing your fundamental homework on the RFID players, keep in mind that the companies that deal exclusively with RFID are very susceptible to the conditions of the RFID industry as a whole. So make sure that you're informed of the latest industry-wide changes and trends, by reading trade publications like *RFID Journal* and the *RFID Weblog*. These resources will keep you at least a little current on the industry's happenings, which play a big role in driving stock prices for a lot of the pure RFID plays out there. For a list of companies involved in RFID, check out this page on [RFIDInvesting.com](#).

RFID Wrap Up

Right now, RFID is definitely an interesting area to be in. The next few years should be equally interesting as big tech companies enhance their RFID presence. Smaller ones will have to either adapt or get out ("How to Play the M&A Game"). Personally, I don't think that the majority of the risk here involves whether or not RFID will ultimately be adopted more widely, it's more a question of whether or not the current niche players in the industry (or the ones yet to emerge) will make it through this rough spot.