



# Wall Street Starts to Catch Up with Fiber's Reality

By Steven S. Ross ■ *Editor-in-Chief*

This month's cover story makes clear that fiber-to-the-home is not going away. The future of North American telecommunications, as was already certain for Asia, will be in optical fiber:

- Almost 10 percent of households passed
- About 8 million being marketed
- More than 2 million customers, half taking video
- Innovative new services to extend the triple play in ways cable's DOCSIS can't begin to match

It isn't cheap. Verizon and Japan's NTT have, for the past five years, spent more money on capital investment than any other companies on earth. More than oil companies that have twice their annual revenue (and more). More than automakers, now switching over to hybrid vehicles. More than power generation companies coping with high demand in gigantic emerging economies like China and India.

Some years NTT is ahead. Some years Verizon is ahead. But the commitment is daunting.

Earlier this year, investors decided that the money was being spent wisely. On November 20, we looked back and compared stock price trends for the largest "pure plays" in American telecommunications – Verizon, AT&T, Comcast and Qwest – with each other and with the benchmark S&P 500. For several years, Verizon stock had performed poorly compared with stock prices for AT&T and the various companies that merged into SBC to form it. But since June 2007, Verizon's stock has run neck-and-neck with AT&T's.

The two telco giants have also been handily outperforming the S&P 500, the broadest index of large-cap stocks on

the New York Stock Exchange. A dollar invested in AT&T or Verizon at the start of the year was worth about \$1.10 as we went to press. A dollar invested in S&P index funds was worth... well, about a dollar.

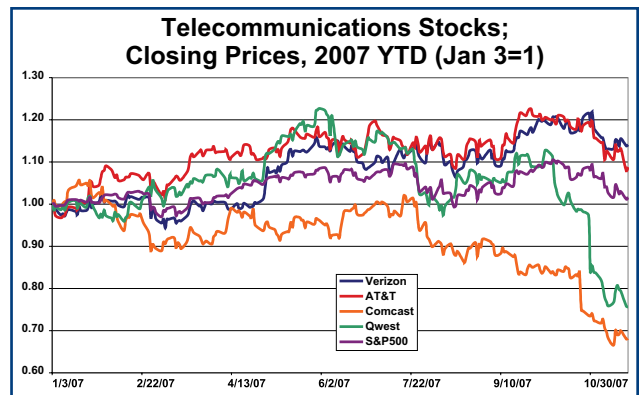
Comcast? It has been flying high for most of the 21st century. But not this year. A dollar invested in the nation's largest cable company last January was worth only about 70 cents in late November. Even Qwest, which announced this year it would work on fiber networks in general and concentrate on fiber-to-the-curb in overbuild situations, is doing better than Comcast.

Why is this happening now? Why not several years ago, when the spectacular technical superiority of fiber was obvious and the ability of Verizon to build a fiber network was clear?

## A Telecommunications Policy!

Part of the reason may be found at the Federal Communications Commission, which has been openly hostile to franchise cable operators and increasingly friendly to telcos. This is what passes for a telecommunications policy in the United States – ad hoc, patched together, and with many odd and perhaps unintended consequences for innovative small players like private cable operators, Tier 2 ILECs, CLECs and greenfield fiber network builders.

But the FCC can't take all the credit – or blame. Otherwise, telco stock would have risen again as the FCC put its policy into proposals for regulations this fall.



Analysts we've been talking to – people who were worried about price and margin erosion for phone services and for "cable-style" TV – now are resting easier. Yes, they still believe (in our opinion, correctly) that the traditional "cable" model will fall to millions of IPTV channels, delivered one channel at a time to users at fixed and mobile locations. But they also now say they believe broadband itself can be a moneymaker, and that video over broadband is just one of a myriad of new services that will attract customer dollars.

Now if we could only get them to understand that only FTTH can deliver all these new services, and that only fiber can provide enough backhaul for the emerging mobile services. AT&T's FTTN (fiber-to-the-node) network can't deliver all these new services. Verizon – and nearly 400 municipalities, CLECs, small telcos and other fiber network builders – can deliver all of them. In fact, they are already starting (see our applications section in this issue, too).

steve@broadbandproperties.com