



Microsoft (MSFT): A Long-Term Investment Opportunity
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Introduction

Recommendation	Buy
Investment Horizon	Long term (3-5 years)
Risk Level	Moderate
Primary Growth Drivers	Azure (Cloud Computing), AI, Microsoft 365, Copilot

Microsoft is a compelling long-term investment due to its leadership in cloud computing and artificial intelligence, strong recurring revenue streams, robust financial performance, and competitive valuation compared to other large technology companies. While short-term volatility may continue because of substantial AI investments, these expenditures position Microsoft for future growth and increasing shareholder value.

Company Overview

Founded in 1975 by Bill Gates and Paul Allen, Microsoft Corporation is a leading American multinational technology company. Microsoft develops, manufactures, licenses, and supports a wide range of computer software, consumer electronics, personal computers, and related services. Due to its products and services such as the Microsoft Windows operating system that is used in a majority of computers, the Microsoft 365 productivity suite used by millions of businesses and individuals, and its connection to Xbox for an engaging gaming experience, Microsoft is considered one of the most valuable public companies in the world. Therefore, these software systems are directed towards a range of consumers. Microsoft serves Fortune 500 companies that run on Microsoft Cloud and Copilot artificial intelligence for operations, security, and computing, smaller businesses that utilize Microsoft 365 applications to enhance productivity and communication, individuals that purchase computers operated by Microsoft, and public sectors and schools that utilize the secure Microsoft cloud and features.

The large impact that Microsoft has on its customers allows it to be widely considered a successful company; Microsoft dominates enterprise computing, builds highly integrated product ecosystems, and leads the AI and cloud markets. Additionally, Microsoft was named the World's Best Employer by Forbes, highlighting the importance of employee well-being and work-life balance at the company. Furthermore, Microsoft reported a total revenue of \$77.7 billion in Q1 2026, which represents an 18% year-over-year increase, and maintained a strong market capitalization of approximately \$2.75 trillion, emphasizing its excellent financial performance and significant presence in the global market. Overall, Microsoft is a great company in today's advancing world due to its continued commitment to innovation, leadership in cloud computing and artificial intelligence, and ability to adapt to changing technological demands while maintaining a strong global presence.



Cash Flow and Revenue Channels

Microsoft generates consistent cash flow through three main revenue channels: Intelligent Cloud, Productivity and Business Processes, and More Personal Computing. The fastest growing segment is the intelligent cloud, which makes up approximately 40-42% of Microsoft's revenue. This section includes enterprise databases, developer tools, and Windows Server, which is primarily driven by customer consumption. Another major generator of revenue is the productivity and business processes of Microsoft, which incorporates the Microsoft 365 ecosystem, LinkedIn, and Dynamics 365. These services generate high-margin recurring revenue through consumer and commercial subscriptions. The remaining revenue is composed of more personal computing, including Xbox hardware, surface devices, and search advertising. Additionally, Microsoft utilizes the indirect method to report cash flows in operating, investing, and financing activities. Operating activities reflect cash generated from Microsoft's core business operations, investing activities include expenditure on long-term assets such as data centers and AI infrastructure (such as OpenAI), and financing activities include dividend payments, share repurchases, and debt management. Microsoft's cash flow methods diversify their business model and allows it to generate stable cash flow while continuing to invest in innovation and return value to shareholders.

Current Stocks Performance



The stock price of Microsoft has overall been decreasing over the past 6 months due to investor concerns about its ability to maintain its position in the rapidly expanding AI industry. While Microsoft remains a strong and reputable company in the technology sector, increasing competition from companies developing advanced AI tools has created uncertainty around the future growth of products such as Copilot. Additionally, Microsoft's large investments in AI infrastructure and OpenAI have raised concerns about whether these investments will generate



enough returns in the near future. Despite these short-term challenges, Microsoft remains a strong long-term investment due to its financial stability, dominance in cloud computing through Azure, and potential growth as AI adoption continues.

For a long-term investor, a reasonable strategy would be to buy Microsoft shares during periods of market decline or when the stock reaches a more attractive valuation rather than attempting to predict the lowest price. Investors should consider gradually building a position over the next 6–12 months while monitoring AI growth, Azure revenue, and Microsoft’s ability to turn its AI investments into profitable products.

Key Ratios Comparison

Company	Key Ratios
Microsoft	Price-to-Earnings (P/E) Ratio: 22.27 Net Income: \$101.83 billion Net Margin: 39.3%
Alphabet Inc (Google)	Price-to-Earnings (P/E) Ratio: 26.80 Net Income: \$160.21 billion Net Margin: 37.9%
Oracle	Price-to-Earnings (P/E) Ratio: 24.03 Net Income: \$17 billion Net Margin: 21.7%
NVIDIA	Price-to-Earnings (P/E) Ratio: 29.86 Net Income: \$159.61 billion Net Margin: 62.97%

Considering the key ratios and valuation metrics of Microsoft compared to other technology and AI-related competitors such as Oracle, Alphabet Inc. (Google), and NVIDIA, Microsoft is considered a highly profitable company that maintains strong financial stability. Microsoft’s Price-to-Earnings (P/E) ratio is 22.27, which is lower than the P/E ratios of Oracle, Alphabet, and NVIDIA. Thus, the P/E ratio indicates that Microsoft has a relatively more attractive valuation, as investors are paying less for each dollar of the company’s earnings compared to its competitors. Therefore, Microsoft’s strong profitability is supported by a competitive valuation, making it appealing to long-term investors.

Additionally, Microsoft’s net income was \$101.83 billion for the fiscal year ending June 30, 2025, which demonstrates Microsoft’s ability to consistently generate substantial earnings that can be reinvested into innovation, research and development, artificial intelligence expansion, and returned to shareholders through dividends and share repurchases. Although Microsoft’s net income is lower than Alphabet’s and NVIDIA’s, it remains exceptionally strong among major technology companies and provides Microsoft with the resources needed to pursue future growth opportunities.



Moreover, Microsoft's net margin of 39.3% highlights the company's ability to efficiently convert revenue into profit. Microsoft's net margin exceeds Alphabet and Oracle, although it falls behind NVIDIA's 62.97% net margin; thus, the net margin emphasizes that Microsoft effectively manages its operating costs while maintaining high profitability despite significant investments in AI and cloud infrastructure. Overall, Microsoft demonstrates strong financial performance and remains attractive to long-term investors due to its high net income, strong net margin, competitive valuation, consistent profitability, and future growth potential.

Expert Analysis and Forecast

The overall expectation based on various stock analysts is that Microsoft's stock price will continue to rise in the long-term, despite some volatility in the short term. According to Morgan Stanley, Microsoft has been spending heavily on data centers and AI capacity, which raises investor attention; despite the spendings on AI infrastructures being high, it is seen as an investment into future growth. The key idea of Morgan Stanley is that Microsoft is building ahead of demand, meaning future revenue could increase significantly once AI usage catches up. Additionally, CNN's market page demonstrates Microsoft as a large-cap tech company with strong financial performance due to large revenue growth, high profitability, and dividend payments that are likely to result in steady earnings for an investor. CNN's analysis highlights that Microsoft's stock performance is based on the cloud's growth, the expansion of AI and Copilot, and the demand of Microsoft's software. Wall Street Journal further anticipates positive growth for Microsoft, classifying the company as a "strong buy", and expecting a target price of around \$550-\$560, more than a \$150 increase from its market price early July 2026. In essence, Morgan Stanley, CNN, and Wall Street Journal have a high prediction in the increase of Microsoft's stock price, and consider it bullish (expected to rise), due to Microsoft's involvement in technology and AI, and the overall growing demand of Microsoft's services.

Creating a Portfolio with Microsoft

Asset	Beta	Allocation	Purpose
Microsoft	~1.04	50%	Long term growth
Real Estate	~0.73	30%	Low volatility
Bitcoin	~1.5-2.0	10%	High risk and high growth
Foreign Currency	Depends on Currency	10%	Defensive allocation

While Microsoft remains a primary equity investment due to its long-term growth potential, a diverse portfolio should include additional assets to reduce overall risk, as demonstrated above. One measure of risk is beta, which compares an asset's volatility to the overall stock market. Microsoft has an equity beta of approximately 1.04, meaning its stock price moves similarly to the broader market while experiencing slightly higher volatility. Therefore, Microsoft is a balanced large-cap technology stock that provides growth potential without the extreme volatility



of smaller technology companies. To create a well-diversified portfolio, investors can combine Microsoft with real estate, cryptocurrency, and foreign currency.

Real Estate Investment Trusts (REITs) allow investors to access income-producing real estate through a brokerage account while benefiting from liquidity and dividend income. Realty Income Corporation, a well-known retail REIT, has a beta of approximately 0.73, making it less volatile than both Microsoft and the overall market, helping offset technology sector risk.

Bitcoin can also provide high long-term growth potential, although its beta has historically ranged between approximately 1.5 and 2.0, making it significantly more volatile than Microsoft and the S&P 500. Due to the increased risk, Bitcoin should represent a smaller allocation while still providing exposure to potential returns.

Foreign currency further improves diversification because currencies often perform differently from equity markets. High-beta currencies such as the Australian Dollar (AUD), New Zealand Dollar (NZD), and South African Rand (ZAR) tend to perform well during strong economic periods but decline during market downturns, while defensive currencies such as the Japanese Yen (JPY) and Swiss Franc (CHF) have historically provided stability during economic uncertainty. Including these assets helps reduce portfolio concentration risk and balances Microsoft's growth potential with lower-risk and alternative investments.

Options Premium Trade Simulation

Contract name: MSFT260717C00380000 Option: Call Strike price: \$380 Expiration: July 17, 2026	
Date: Tuesday July 14 8.30 AM CST MSFT Stock Price: \$382 Last Price: \$13.40	Date: Friday July 17 3 PM CST MSFT Stock Price: \$393.82 Last Price: \$14.25

Investors can gain further exposure to Microsoft through options trading, allowing them to control shares at a predetermined price before expiration. A call option provides investors with the opportunity to benefit from a stock price increase while limiting their maximum loss to the premium paid, despite options carrying greater risk due to expiration and potential loss of the initial investment. In the simulation illustrated above, a Microsoft call option contract (MSFT260717C00380000) with a \$380 strike price was purchased on July 14, 2026, at a premium of \$13.40 per share, or \$1,340 per contract. The contract was sold on July 17, 2026, at a premium of \$14.25 per share, or \$1,425 per contract, resulting in an \$85 profit. During this period, Microsoft's stock price increased from \$382.00 to \$393.82, resulting in the option premium to appreciate in value. Thus, the simulation demonstrates how options can provide amplified returns with less initial capital compared to purchasing 100 shares directly, while also highlighting the increased risk associated with short-term trading.



Conclusion

Overall, Microsoft is a Buy because of its diversified revenue streams, strong profitability, recurring cash flow, leadership in cloud computing and artificial intelligence, and favorable long-term analyst outlook. Although the company faces increasing competition and short-term volatility from substantial AI investments, its financial strength and continued innovation position it for sustainable long-term growth. Based on the analysis of Microsoft through multiple perspectives, the company remains an attractive investment opportunity for investors seeking both stability and long-term growth.



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