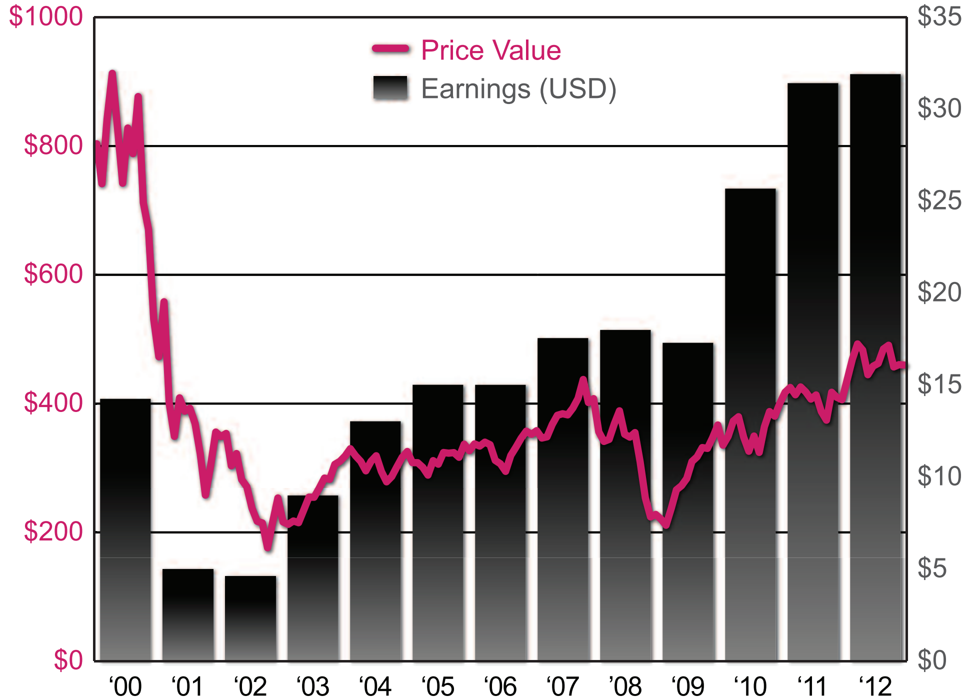
Technology Products Are Becoming Consumer Staples

S&P 500 Information Technology Index



Source: Bloomberg. Data from 12/31/99 to 12/31/12.

View from the Observation Deck

1. Companies have delivered on most, if not all, of the cutting-edge technology they promised investors prior to the Internet bubble bursting in 2000. One of the most obvious is 3G/4G wireless broadband.
2. While we acknowledge that many investors experienced both emotional and financial pain from the post-hype plunge in technology/Internet equity share values, we do believe it is time to view this sector in a new light.
3. One thing that has not changed is the speed at which technological innovation can evolve. The old saying that a particular mode or brand of technology could be made obsolete in six months can still hold true.
4. For this reason, investors may want to consider owning a diversified portfolio of technology companies rather than trying to seize a potential opportunity in one or a just a few companies.
5. The explosion of consumer electronics products in recent years has elevated technology companies to a societal status approaching consumer staples companies, in our opinion.
6. Consumer staples are defined as essential goods, such as food and household items. Goods that people are unable or unwilling to cut from their budgets regardless of their financial situation.
7. Need more evidence? The technology companies in the S&P 500 became the largest contributors to the index's dividend payout for the first time ever in 2012, according to S&P Dow Jones Indices.
8. Technology supplanted consumer staples companies for that honor. The technology sector has boosted its dividend contribution from 5.45% of total dividends in December 2005 to 14.60% as in March 2013.
9. Earnings have improved as well (see chart). Bloomberg estimates for 2013 and 2014 earnings for the S&P 500 Information Technology Index are currently $37.08 and $41.65 per share, respectively.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Information Technology Index is a capitalization-weighted index comprised of 70 constituents representing the technology sector.