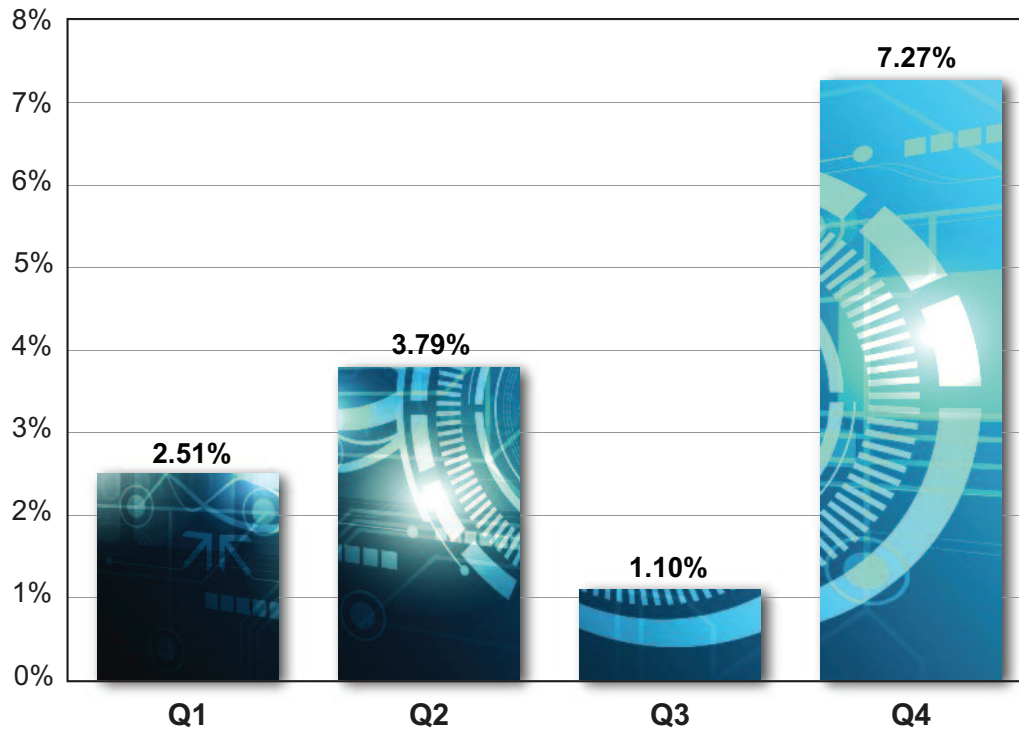


Q4 Has Been The Best Performing Quarter For Technology Stocks Since 1994

**S&P 500 Information Technology Index
Average Quarterly Total Returns (1994-2013)**



Source: Bloomberg. Past performance is no guarantee of future results.

View from the Observation Deck

1. Today's blog post is a reminder of the potential for a seasonality trade in tech-oriented stocks heading into Q4. We chose 1994 as our starting point because it coincided with the start of the Internet Revolution.
2. One of the potential boosts for tech-oriented companies in Q4 comes from IT spending. Managers have just three months left to spend their budgets. It is often a use it or lose it proposition.
3. A second potential driver for business is the launch of new consumer electronics products to coincide with the holiday shopping season. We have already witnessed a couple of major smartphone launches in the past few weeks.
4. Semiconductor sales, which are a good barometer for the technology sector, in our opinion, have been strong in 2014.
5. Worldwide sales of semiconductors rose 9.9% (y-o-y) to \$28.10 billion in July, the industry's highest-ever monthly sales total, according to the Semiconductor Industry Association.
6. From 1994-2013, the S&P 500 Information Technology Index posted an average total return of 7.27% in Q4, nearly double the second-highest quarterly average (3.79% in Q2).
7. Since 1994, the S&P 500 Information Technology Index posted a positive total return 75% of the time in Q4. The best showing was in Q4'98 (+36.46%), while the worst was in Q4'08 (-25.73%) – the year of the financial crisis.
8. On a price-to-earnings (P/E) basis, technology stocks are a value at current levels, in our opinion. As of 9/23, the estimated 2014 and 2015 P/E's for the S&P 500 Information Technology Index were 16.77 and 14.89, respectively, well below the 10-year average of 18.98, according to Bloomberg.

This chart is for illustrative purposes only and not indicative of any actual investment. There can be no assurance that any of the projections cited will occur. 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 capitalization-weighted and comprised of S&P 500 constituents representing the technology sector.