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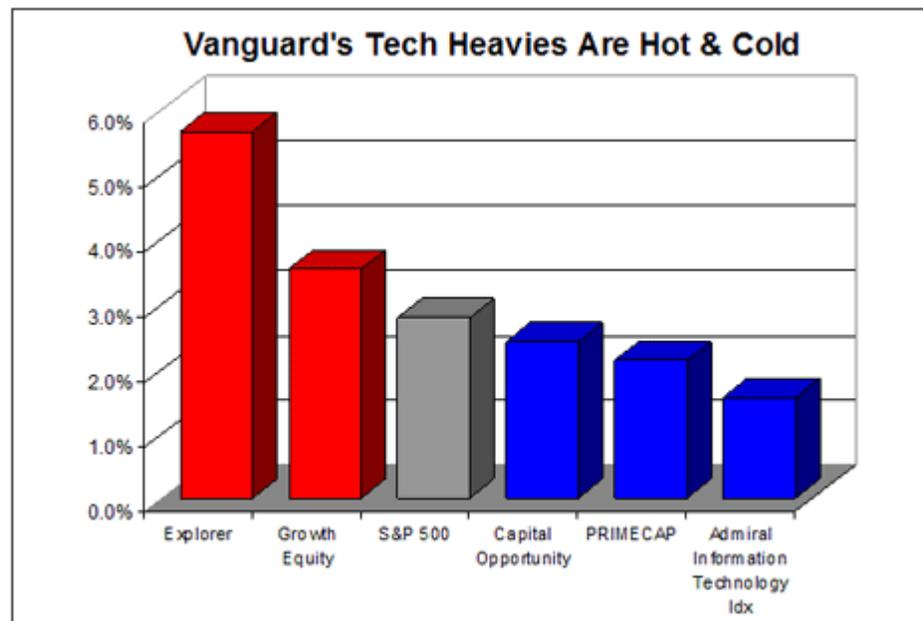
- A Hot & Cold Tech Winter

March 9, 2007

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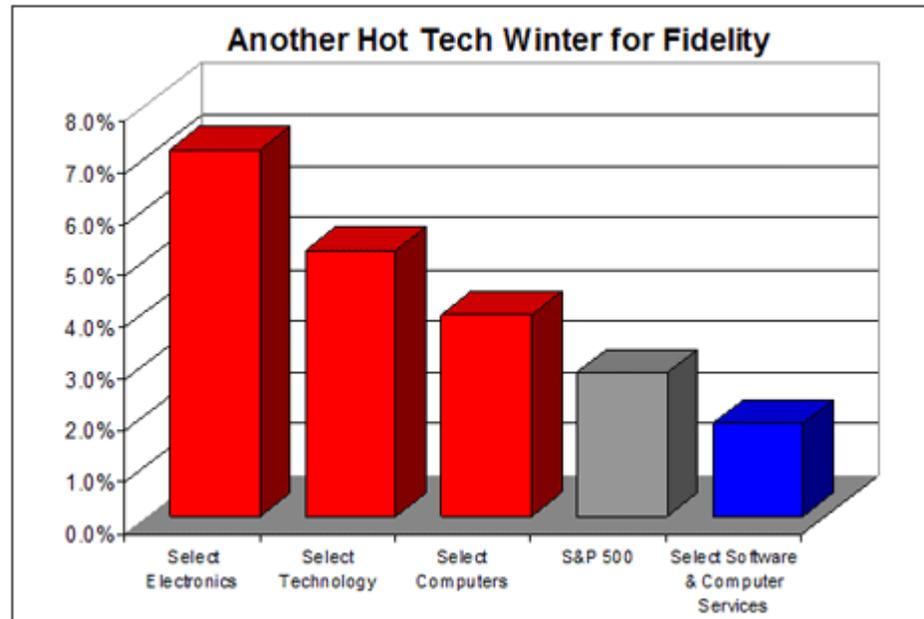
Back in November, we wrote to you about what we call Tech Winter—the four month period from November to February during which technology stocks have traditionally outperformed. We've tracked this phenomenon over the past 22 years and found overwhelming evidence of the trend, although it is not a guarantee to occur every year.

This year was a mixed bag, as tech stocks and tech-heavy funds performed inconsistently against the S&P 500 over the course of Tech Winter, as you can see in the charts below.



The S&P returned 2.8% from the start of November through February of this year, and it was an even split above and below that for Vanguard's tech-heavy funds. The funds carrying on in the Tech Winter tradition of outperformance this year were Explorer (up 5.7% from November through February), Morgan Growth (3.7%), Growth Equity (3.5%) and Growth Index (3.0%), while Capital Opportunity (2.4%), PRIMECAP Core (2.4%), PRIMECAP (2.1%) and Information Technology Index (1.6%) felt a chill. (While some of our favorite

Vanguard funds missed the cut this Tech Winter, we do find it encouraging that they all surpassed the tech-only sector fund, which certainly endorses a broader approach to investing over any sector-reliant strategy.)



Fidelity's tech-focused Select funds had more of a typical Tech Winter, with Electronics, Computers and Technology all outperforming the S&P 500 (returns of 7.1%, 3.9% and 5.2%, respectively). Software and Computer Services lagged, only producing a 1.8% gain, mainly due to some poor performance among its top-10 stocks, such as Symantec, which dropped nearly 14% during Tech Winter and Oracle, which fell 11% over the period.

A big part of why we like to talk about the Tech Winter phenomenon is because it highlights the skills of some of our favorite managers and their dexterous stock-picking, which we put to use in our clients' portfolios. Among those managers is the team at PRIMECAP, responsible for Capital Opportunity (43% allocated to tech through January), PRIMECAP (30%) and PRIMECAP Core (27%). They are very fond of tech investing, but do it intelligently, hedging their bets by spreading a majority of their assets across multiple sectors. While the Fidelity funds we hold on behalf of our clients do not have quite the same tech focus, International Small Cap Opportunities (20% allocated to Tech through January), Low-Priced Stock (12%), and Diversified International (9%), are also Tech Winter beneficiaries to an extent, as they returned 15.4%, 7.1% and 6.3% over the four months, respectively.

As we always caution when looking at these shorter-term trends, we do not advise making drastic moves in your portfolio in an attempt to catch four months of outperformance. What we do recommend is keeping a diversified portfolio with tech exposure, so that you reap some benefit from Tech Winter without adding unnecessary risk. This philosophy has kept our clients warm this Tech Winter and should do so for many more to come.

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