ADVISER INVESTMENTS

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

November 12, 2010

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Vanguard Ventures Abroad

On November 1st, Vanguard opened its Global ex-U.S. REIT Index fund and ETF, which invest in REITs (real estate investment trusts) and REOCs (real estate operating companies) in developed and emerging markets countries around the globe (as the name would suggest, it excludes domestic REITs and REOCs). The fund is an intriguing expansion of Vanguard's sector fund offerings, and could pave the way for more non-U.S. sector ETFs down the road.

However, our analysis of the fund's underlying benchmark, the S&P Global ex-U.S. Property Index, revealed that the global fund has experienced significantly more volatility than the U.S.-only REIT Index fund currently in Vanguard's stable, while also underperforming over the last 16 years for which data was available. Our feeling is that Global ex-U.S. REIT's best use will be to add diversity to a domestic REIT investment, but we'd be hesitant to recommend the fund to a majority of investors.

The fund's investor share class has a $3,000 minimum initial investment, a 0.50% expense ratio and charges 0.25% front- and back-end loads. The ETF class has a 0.35% expense ratio and will also cost brokerage fees, making it the better option for most cost-conscious investors.

Tech Winter Warmer

As the calendar flips over from October to November, the football season is in full swing and the days become shorter and colder. At Adviser Investments, we've developed investment strategies to see our clients through all seasons, but at this time of year we traditionally take note of an annual trend we call *Tech Winter*.

We are nearly two weeks into *Tech Winter*, which takes its name from the four-month period of cold weather outperformance we've observed in tech stocks over the past 25 years, annually stretching from November through February.

While it may seem strange that tech stocks follow a seasonal pattern (and that there could be any pattern at all in the volatile markets we've experienced over the last few years), there are actually three main factors we've identified that we believe lead to their four-month historical outperformance year after year.

The first has to do with fourth quarter spending by corporations. Many information technology managers will have held back in using up their entire budgets in case of an emergency or to spend on some new tech innovation or product that allows the company to stay competitive. Because of the likelihood that budgets will be cut from year to year if they aren't fully spent, managers feel increased pressure to empty their accounts towards the end of the year. This sales surge is duly noted and the tech stocks that benefit from this spending rise on expectations of higher earnings.

A second contributor is Europe. European purchasers account for a significant percentage of U.S. technology orders, and during the fourth quarter they do an increased amount of buying. The reason for increased spending in these final months can be partly attributed to lengthy European summer vacations—orders drop during the summer as workers go on holiday. When vacations end, orders start rising in the fall and through the winter, often hitting a peak in the last few months of the year.

A final catalyst for *Tech Winter* may be the bargains hardware companies create to sell off existing inventories as they begin readying for new product launches. This affords corporate purchasers an opportunity to acquire the cheap, well-tested products still sitting on manufacturers' shelves.

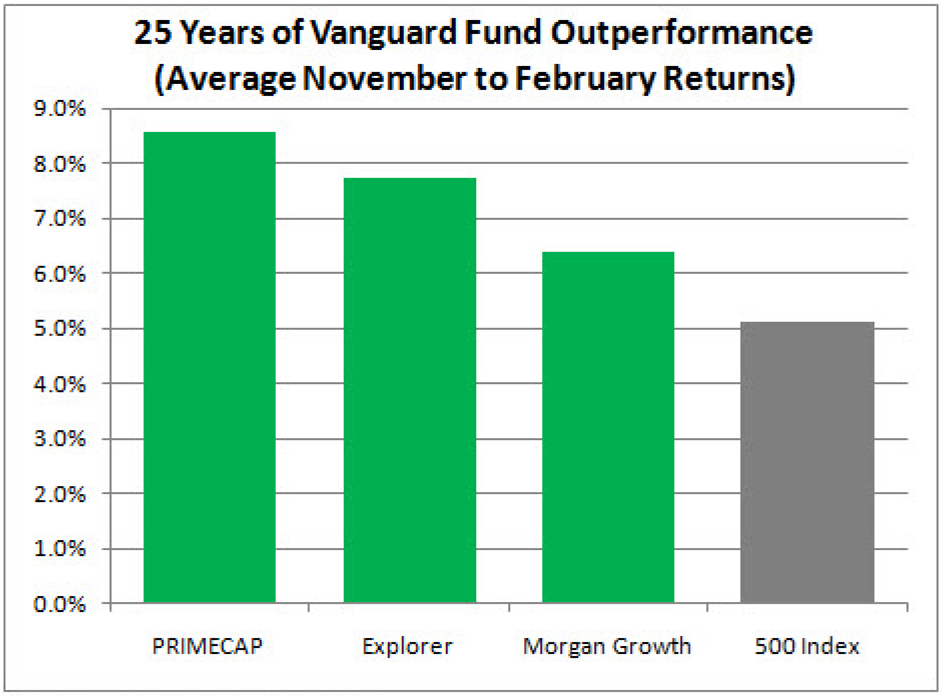
Tech Winter comes to a close as technology companies rebuild their inventories at the start of the new year and a new buying cycle begins. When this happens, tech stocks don't necessarily return less, but they do become less predictable in their behavior, not following the historical pattern typically seen between November and February.

Stay Toasty This Tech Winter

We do not suggest making dramatic changes to your portfolio just in an attempt to benefit from *Tech Winter*. While the evidence overwhelmingly shows that the trend exists (see the charts showing average performance for tech-heavy Fidelity and Vanguard funds from November to February below), year-to-year results can swing unpredictably, and not all funds with heavy tech weightings are worthy of your investment. That said, we think one should have at least a market weighting in tech stocks through the four months of *Tech Winter*.

We recommend sticking with a disciplined long-term investment strategy and funds that can provide you with outperformance throughout all market cycles. Our clients have benefited in the past from positions in tech-heavy funds like Vanguard's Capital Opportunity, PRIMECAP, PRIMECAP Core (and the independently-run PRIMECAP Odyssey funds we've increasingly been favoring over the original Vanguard offerings) and Growth Index, as well as Fidelity's Contrafund and Magellan. To the extent the *Tech Winter* trend repeats itself over the next four months, funds like these should perform favorably.

We think that this *Tech Winter* should follow the historical trend, as the tech sector will likely benefit from the incremental improvements we've seen in the economy this year. We see no reason for this tech advance to slow as we head into 2011.



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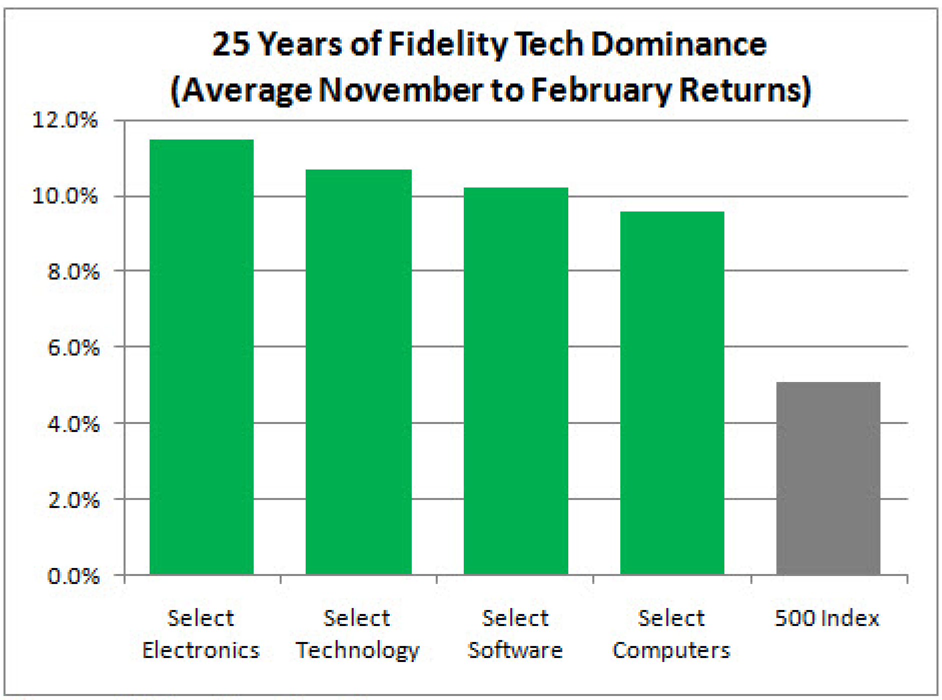

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