ADVISER INVESTMENTS

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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Tech Heat Wave

As the calendar rolls over from October to November, heating systems kick in across the country and winter jackets come out of the closet. 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 about 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 24 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 two years), there are actually a number of factors 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 piece 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? Credit those 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.

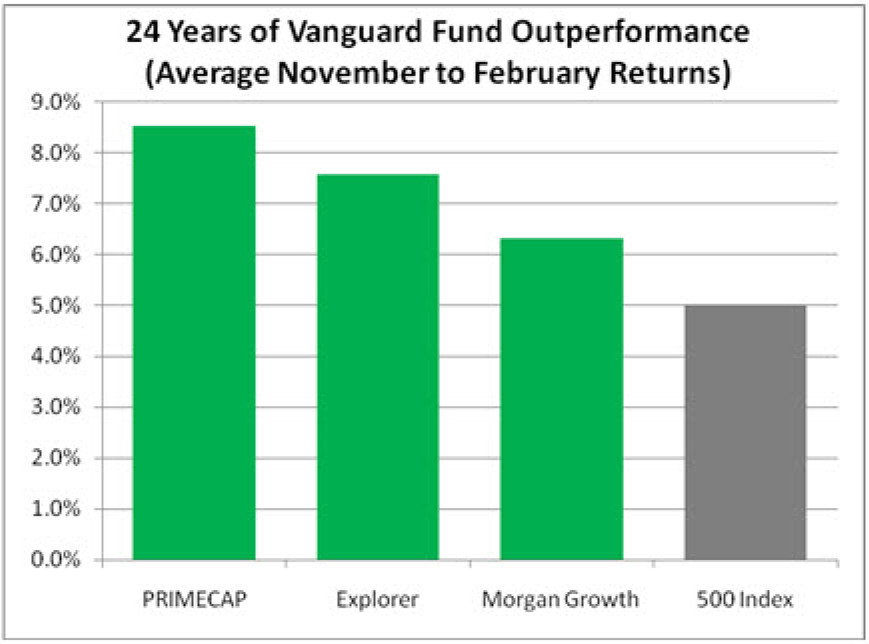
Tech Winter comes to a close as technology companies rebuild their inventories at the start of the new year and a new buying cycle begins. When this happens, tech stocks don't necessarily return less, but they do become less predictable in their behavior, not following the historical pattern typically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

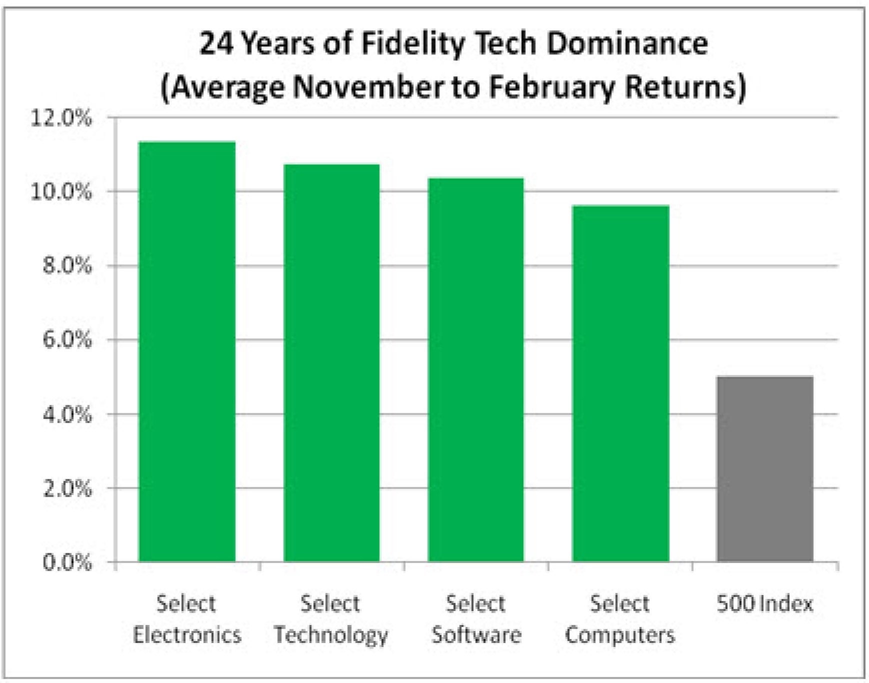
Keeping Warm in *Tech Winter*

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 use as substitutes for these closed funds) 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 has been leading the charge since the markets rebounded off of their March lows. We see no reason for this tech advance to slow as we head into 2010.





Vanguard's Increased Load

On October 30, Vanguard announced that it was doubling the front-end load on Emerging Markets Index from 0.25% to 0.50% (the fund's back-end load of 0.25% remains the same). While it might be easy to assume that this move was an attempt to reap additional profits from all of the cash flowing into Emerging Markets Index as it has reached stratospheric performance heights this year (the fund was up 60.4% with cash inflows of nearly $7 billion for the year through October), the explanation is, in fact, far less sinister. Brazil, whose stocks represented 15.8% of the fund's assets through September—the fund's second largest country allocation—introduced a tax on foreign investors buying the country's equity and fixed-income securities, which drove up transaction costs for funds investing there. Vanguard says that raising the front-end load will help defray these costs and protect existing shareholders in the fund.

Fortunately, Vanguard offers an excellent alternative to the Emerging Markets Index in its ETF clone, which has a lower expense ratio (0.27% for the ETF vs. 0.39% for the index fund) and charges no additional loads (you will pay standard brokerage fees to purchase the ETF, however). For investors seeking to add an allocation to emerging markets to their portfolio, we'd suggest considering Emerging Markets ETF (VWO) over the index fund.

About Adviser Investments

Adviser Investments is an independent, professional money management firm specializing in Fidelity and Vanguard mutual funds. With 1,500 clients and $1 billion dollars under management, Adviser is one of the nation's largest mutual fund research and money management firms. Our staff of 35 investment professionals focuses on helping individual investors, trusts, foundations, and institutions meet their investment goals. Our minimum account size is $350,000.

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