ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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In This Issue

Tech Winter Wonderland

We're a month into "Tech Winter," which takes its name from the four-month period—from November through February—of outperformance we've observed in tech stocks over the past three decades. So what's this phenomenon and what does it mean for your portfolio?

It might seem strange to hear us talk about looking for seasonal patterns in any sector or category (and that there could be any pattern at all given the volatility common to most markets), but we've identified three main factors that appear to have helped the tech sector outperform over the four-month period on average.

First: Spending by corporations in the fourth quarter. Managers of information technology often have held back spending their annual budgets in case of emergency or to invest in some new tech innovation or product that helps their company stay competitive. And since budgets tend to be cut from year to year if they aren't fully spent, many department heads feel increased pressure to clear out their accounts by year-end. Tech stocks tend to benefit from this spending rise on expectations of higher earnings.

Second: Europe. Purchasers in the euro zone account for a significant percentage of U.S. technology orders, and during the fourth quarter, they usually ramp up buying. Increased spending in these final months can be partly attributed to prolonged European summer vacations—technology maintenance and upgrades aren't foremost on the mind of beachgoers and sightseers. When IT managers return from holiday, orders start rising in the fall and through the winter, often peaking in the last few months.

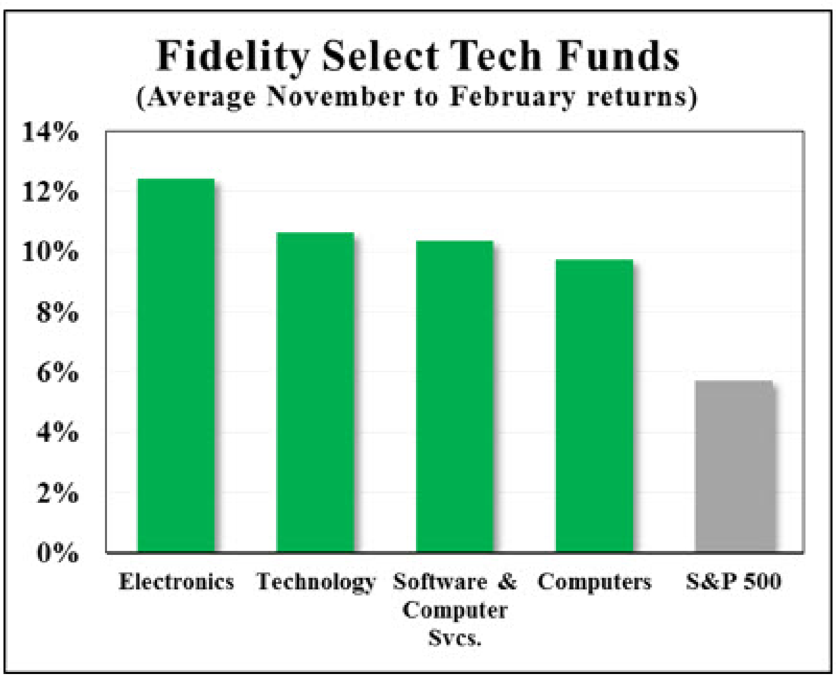
Third: Year-end bargains. Technology hardware offer deals to sell off existing inventories as they begin readying for new product launches. This gives corporate purchasers and opportunity to acquire well-tested products still sitting on manufacturers' shelves on the cheap.

Tech Winter winds down as technology companies rebuild inventories at the start of the new year and a new buying cycle begins. As this occurs, tech stocks don't necessarily return less, but they do become less predictable, not following the historical pattern typically seen between November and February.

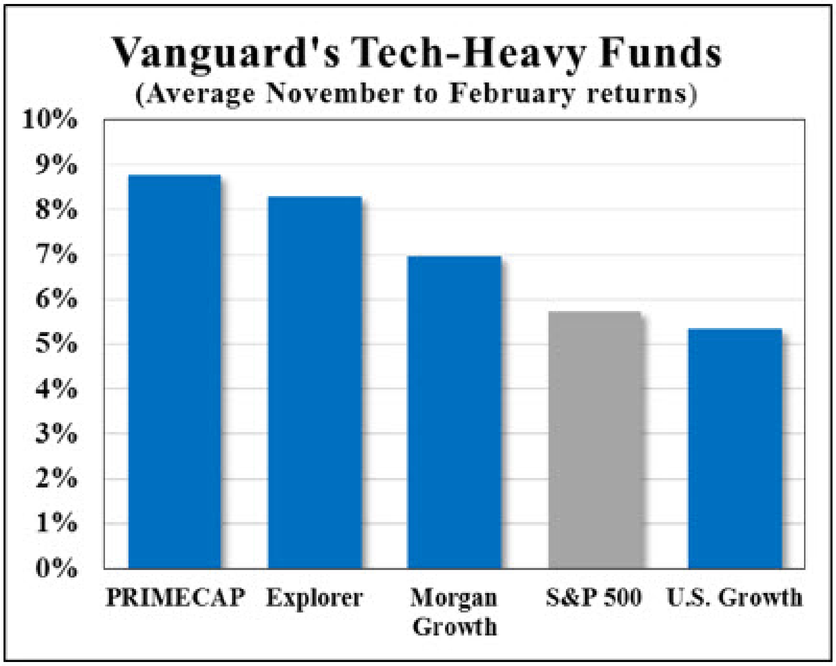
Tapping in to Tech Winter

At Adviser Investments—where one of our mottos is "time in the markets, not market timing"—we don't suggest making dramatic changes to your portfolio in an attempt to benefit from Tech Winter. While the evidence overwhelmingly demonstrates a trend (see the charts below), year-to-year results can swing unpredictably, and not all funds with heavy tech weightings are worthy of your investment (Vanguard's U.S. Growth is a prime example—despite a significant allocation to technology, due to poor historical management, the fund's average performance during Tech Winter lags the market's over the last 30 years). That said, by investing with high-quality active managers who have the ability to increase their diversified funds' exposure to market sectors like technology based on seasonal and other factors, we benefit from trends like Tech Winter without making riskier short-term bets on a portfolio level.

We looked at 30 years of Tech Winter return data, and found that Fidelity and Vanguard funds with a strong tech bent or complete sector weight have significantly outpaced the returns of the S&P 500 from November through February. (Note that we do not necessarily recommend any of these funds for investment—they are included because of their historical overweight to technology stocks and 30-year track records.)

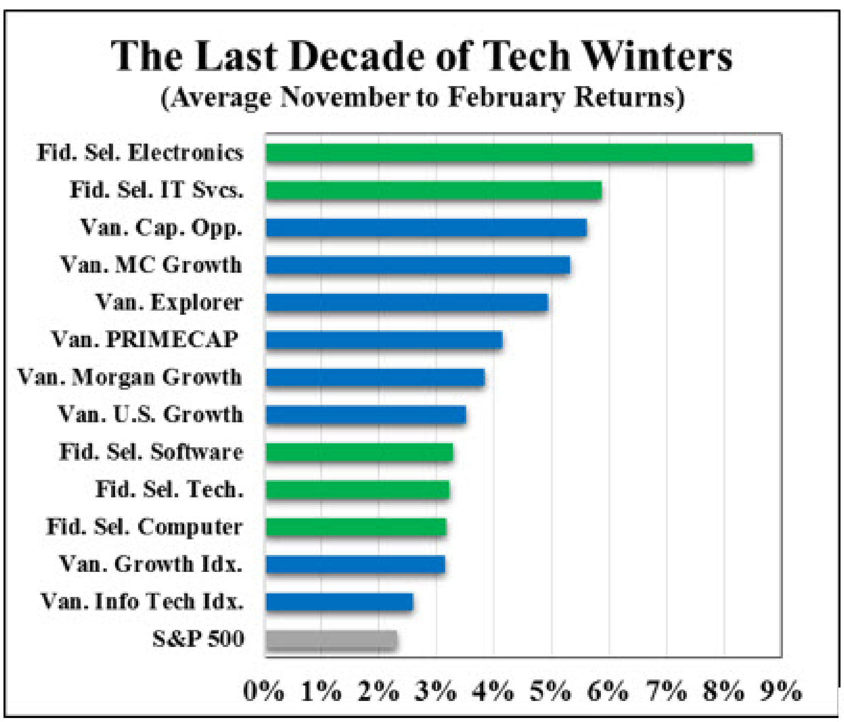


Source: Morningstar Direct, data covers 30 years through 2/28/2015.



Source: Morningstar Direct, data covers 30 years through 2/28/2015.

The last decade shows similar outperformance for funds with above-market allocations to technology compared against the S&P 500. The below chart shows the average Tech Winter performance of five tech-heavy Fidelity funds (in green) and eight Vanguard funds (blue) alongside the S&P 500's.



Source: Morningstar Direct, data covers the last 10 Tech Winters from 2005 to 2015.

The evidence that tech stocks can and do outperform in the months from November through February over a number of years is compelling. Of course, there are periods where this isn't the case. The tech sector froze up between November 1, 2000 and February 28, 2001, when four of the five Fidelity sector funds charted above dealt with losses ranging from Select Software's 33.2% drop to the 45.2% loss for Select Computers, compared to the relatively smaller 12.9% decline for the S&P 500 (the outlier was Select IT Services, which posted a 3.2% gain over the period). Something similar occurred, if less significantly during the winter of 2007–2008.

So, major losses can and have occurred during Tech Winter, and that's part of why we never recommend that investors make major portfolio or investment decisions based on short-term trends. Our investment philosophy is to stick with a portfolio of top-notch actively managed funds suited to individual goals and risk comfort zones, taking any short-term gains or losses in stride.

While you can't count on a predictable gain every winter, you can rely on solid management and a strong investment discipline. And if we get a bit of a tailwind over this Tech Winter, we'll gladly welcome it.

About Adviser Investments

Adviser Investments and its subsidiaries operate as an independent, professional money management firm with particular expertise in Fidelity and Vanguard mutual funds. With 2,600 clients and over $3 billion under management, Adviser Investments is one of the nation's largest mutual fund research and money management firms. Our investment professionals focus on helping individual investors, trusts, foundations and institutions meet their investment goals. Our minimum account size is $350,000. In 2015, Adviser Investments was named to *Barron's* list of the top 100 independent financial advisers nationwide for the third consecutive year and its list of the top advisory firms in Massachusetts for the second time. We have also been recognized on the *Financial Times* 300 Top Registered Investment Advisers list in 2014 and 2015.

For more information, please visit www.adviserinvestments.com or call 800-492-6868.

The *Barron's* rankings reflect the volume of assets overseen by the advisers and their teams, revenues generated for the firms and the quality of the advisers' practices, as determined by its editors.

Editors at the *Financial Times* bestowed "elite" status on 300 firms in the U.S., as determined by assets under management, asset growth, longevity, compliance record, industry certifications and online accessibility.