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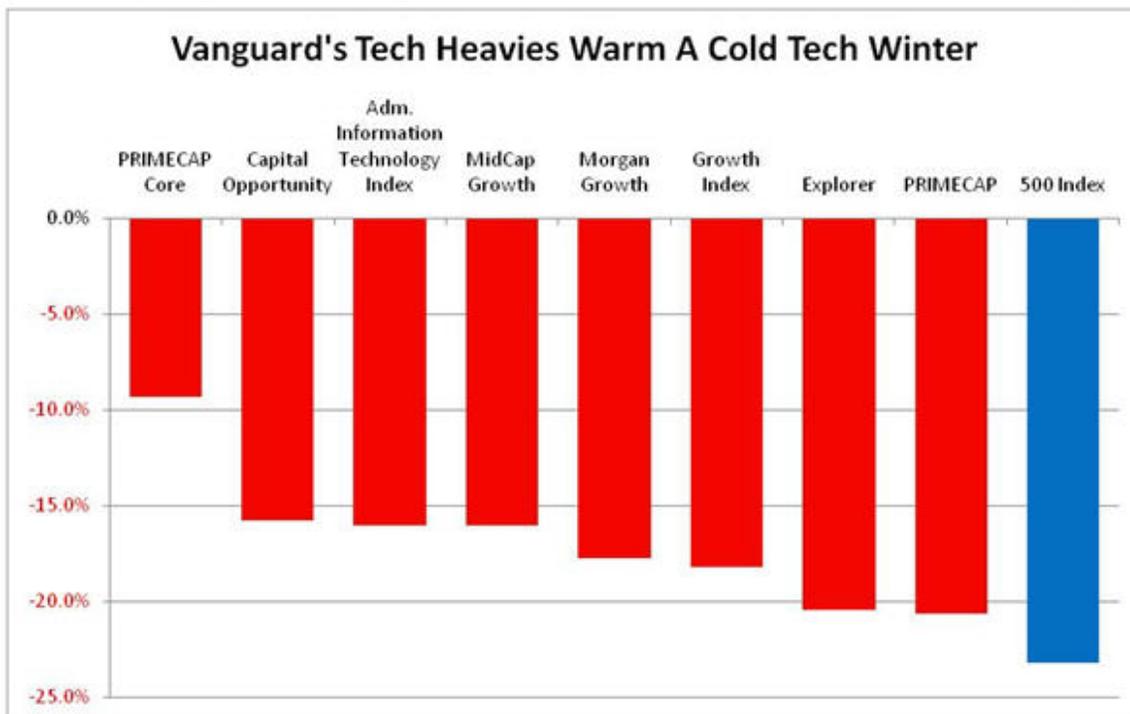


March 18, 2009

Roughing It This Tech Winter

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 24 years and found overwhelming evidence of the trend. While it is not a sure thing every year, the most recent Tech Winter certainly bolsters the theory.

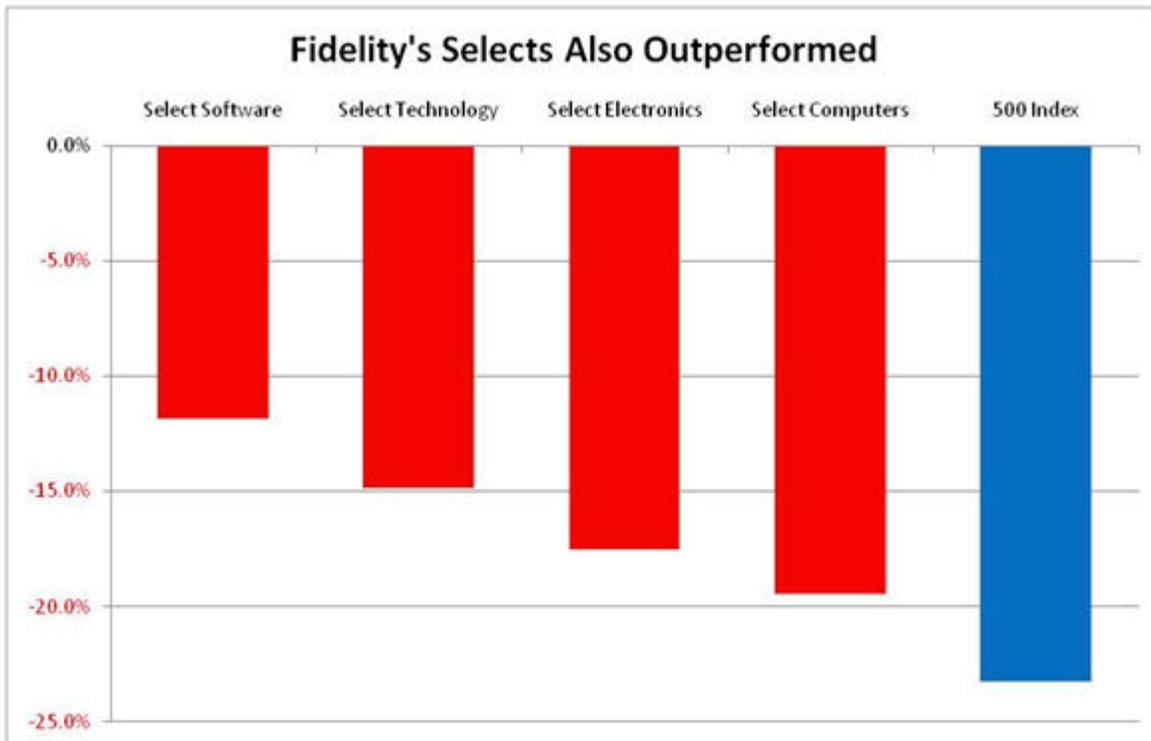
From November 2008 through February 2009, the most tech-heavy funds at both Vanguard and Fidelity, without exception, outperformed the S&P 500. Unfortunately, these funds outperformed by losing less than the index, but from smaller losses, one can more quickly recover and get back into the black (more on this farther down).



The S&P returned -23.2% from the start of November 2008 through February of this year, and, as mentioned above, all of Vanguard's tech-heavy funds lost less. The notable outperformers were PRIMECAP Core, which lost 9.3% over the period, Capital Opportunity (-15.8%) and MidCap Growth (-16.0%). Morgan Growth, Growth Index, PRIMECAP and Explorer also beat the index, albeit by slimmer margins.

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Fidelity's tech-focused Select funds were all also Tech Winter outperformers, although they too achieved their index-beating returns by losing less, rather than showing gains. The best of the bunch, Select Software, lost 11.8% over the four months, while the worst, Select Computers, fell 19.4%.

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 (38% allocated to tech through February), PRIMECAP (29%) 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. The Fidelity funds we hold on behalf of our clients with tech holdings greater than the S&P 500's 16% allocation, Contrafund (20% in tech through January) and Magellan (35%), provided strong defense this Tech Winter, losing less than the market, as they returned -11.1% and -10.4% 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 potential 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 helped protect our clients in this tumultuous Tech Winter and should do so for many years to come.

Bouncing Back From Losses

After the historically difficult market moves we've experienced over the past year (and this Tech Winter was the worst for the S&P 500 on record in the 24 years we've been following the trend) it's important to note that, while losses are always a disappointment, minimizing those losses in a tough environment is a victory in and of itself. An unfortunate reality of the market is that sometimes the stock-picking talents of your managers won't net you gains over the near-term, but they can help you to lose less in the lean times, leaving you in a better position to recoup your losses when prices begin to rise again. To see how this works, take a look at the table below, which shows hypothetical losses and the amount of gain required to break even.

The Mathematics of Losses and Gains

Initial Loss	Gain Required to Break Even
-10%	11%
-15%	18%
-20%	25%
-25%	33%
-30%	43%
-40%	67%
-50%	100%

As you can see, the lighter the loss, the less of a gain is required to get back to a place where you are once again earning money. So while this Tech Winter left all of the tech-heavy funds with losses, the fact that they lost less than the market leaves them in a much better position to resume creating wealth once the markets begin their inevitable recovery.

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