CIF Sector Update Report (Spring 2014)

Sector Information Technology

Presentation Date: March 26, 2014

Review Period: Start Date: February 24, 2014    End Date: March 19, 2014

Section (A) Sector Performance Review

(A-1) Sector Performance Relative to SP500

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Current Price</th>
<th>Beg. Price</th>
<th>Stop-loss Price</th>
<th>Target Price</th>
<th>% Capital Gain</th>
<th># Shares</th>
<th>Current Value</th>
<th>vs. Sector</th>
<th>vs. S&amp;P 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>$1,600.77</td>
<td>$1,636.25</td>
<td></td>
<td></td>
<td>1.34%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sector ETF</td>
<td>XLK $36.21</td>
<td>$35.80</td>
<td></td>
<td></td>
<td>1.15%</td>
<td>12,180</td>
<td>$41,037.80</td>
<td>-0.19%</td>
<td></td>
</tr>
</tbody>
</table>

Current Holdings

There are no current holdings at this time.

Chart courtesy of Google Finance 2/21/14
How did the sector perform relative to the broad market (SP500) during the review period? What might have caused the out-/under-performance of the sector in relation to the broad market? You should weigh in macro, sector/industry, and company-specific factors that might have contributed to the out-/under-performance

The Information Technology Sector underperformed relative to the S&P500 during the review period February 24, 2014-March 19, 2014. Before looking at specific events causing investors to buy or sell from day to day, it is necessary to analyze the Information Technology Sector. As a recap from the sector overview, the sector is very cyclical by nature. This can be noticed throughout the review period. Last year the Large Cap stocks had significant gains. During this first quarter technology stocks have been struggling. Two reasons for underperformance compared to the broad market are the following (Fred Dickson): first, the sector usually does not outperform the market in the first quarter. Also, companies that require large capital expenditures deferred them to incur during this first quarter.

Looking at Geopolitical factors that have influenced the market, it can be noted that investors were bearish at times due to the escalating conflict in Ukraine. The significant drops in both the broad market and XLK occurred due to the conflict on February 24, 2014 due to the Ukrainian President moving into hiding as well as the debt crisis that could arise from the failing state. It can be noted on March 4, 2014 that stocks rallied due to easing tension when troops were pulled off the western border, but the tension was still in the back of investor’s minds. On the 17th of March Crimea voted to become a part of Russia causing the market to benefit with large gains. Technology was the biggest gainer amongst sectors, with a 1.15% gain.

The macroeconomic environment also clouded investors mind during the review period. Janet Yellen and the Fed’s monetary policy to scale back on tapering cause stocks to drop on the first day of the review period. Yellen said that weather may not be the cause for the previous struggle in the market and may consider pausing the tapering on February 27, 2014. This comment surpassed the geopolitical factors of the Ukrainian President displaying his need to maintain leadership by seizing two airports. The broad market and the XLK ETF soared that day. Notice the drop on the last day of the review period. This can be justified because investors reacted to the FOMC meetings deciding to raise interest rates from 0-2% in the outward looking future and also to buy back $55 billion of assets a month.
What are some of the noteworthy news/events from the sector during the review period?
The news/events can be company specific, or for the industry/sector

<table>
<thead>
<tr>
<th>Company</th>
<th>Symbol</th>
<th>Index Weight</th>
<th>2/21/14</th>
<th>3/19/14</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apple Inc.</td>
<td>AAPL</td>
<td>13.46%</td>
<td>$525.25</td>
<td>$531.26</td>
<td>1.14%</td>
</tr>
<tr>
<td>Google Inc.</td>
<td>GOOG</td>
<td>9.32%</td>
<td>$1,203.79</td>
<td>$1,199.25</td>
<td>-0.38%</td>
</tr>
<tr>
<td>Microsoft Corp</td>
<td>MSFT</td>
<td>8.57%</td>
<td>$37.98</td>
<td>$39.27</td>
<td>3.40%</td>
</tr>
<tr>
<td>Verizon Communications Inc</td>
<td>VZ</td>
<td>5.48%</td>
<td>$47.27</td>
<td>$46.36</td>
<td>-1.93%</td>
</tr>
<tr>
<td>Intl Business Machines Corp</td>
<td>IBM</td>
<td>5.35%</td>
<td>$182.79</td>
<td>$184.71</td>
<td>1.05%</td>
</tr>
<tr>
<td>AT&amp;T Inc</td>
<td>T</td>
<td>5.07%</td>
<td>$32.80</td>
<td>$32.96</td>
<td>0.49%</td>
</tr>
<tr>
<td>QUALCOMM Inc</td>
<td>QCOM</td>
<td>3.74%</td>
<td>$75.26</td>
<td>$76.81</td>
<td>2.06%</td>
</tr>
<tr>
<td>Oracle Corp</td>
<td>ORCL</td>
<td>3.72%</td>
<td>$38.10</td>
<td>$38.55</td>
<td>1.18%</td>
</tr>
<tr>
<td>Cisco Systems Inc</td>
<td>CSCO</td>
<td>3.25%</td>
<td>$22.13</td>
<td>$21.63</td>
<td>-2.26%</td>
</tr>
<tr>
<td>Visa Inc</td>
<td>V</td>
<td>3.19%</td>
<td>$223.36</td>
<td>$223.82</td>
<td>0.21%</td>
</tr>
</tbody>
</table>

Top 10 Average Change 0.50%

SP500 $1,836.25 $1,860.77 1.34%

Apple was struggling prior to the review period, but investors are still bullish on the stock. Up until the annual shareholder meeting the stock price saw gains. There was no major news one of the key stocks in the sector, but as with other companies new product lines will be coming out.

Google announced on March 17, 2014 that they are looking opening their first retail store in Manhattan by their rival Apple. Google Glass has started to work with Ray-Ban and Oakley. The company has also been hacked two days in a row the last week, causing Google Play to shut down.

Microsoft will remain player in the technology sector throughout the year. During the review period the latest news that caused increase in stock price was the announcement for their Office suite to be available to iPad on March 27th, 2014. The stock surged past $40 for the first time since the summer of 2000.

Cisco struggled throughout the review period and most recently announced that the company will invest $1 billion to become a cloud provider. Investor’s called it a marketing ploy due to struggles with their other products.
(A-2) Big Sector Movers

Identify two largest sector gainers and losers from recent 1 month. Copy/paste a 1 month price chart of the two largest gainers and losers here.

Gainers:

Frontier Communications Corporation (FTR)

Chart courtesy of Yahoo 2/21/14

First Solar, Inc. (FSLR)

Chart courtesy of Yahoo 2/21/14
Losers:
Salesforce.com, Inc (CRM)

Chart courtesy of Yahoo 2/21/14

Symantec Corporation (SYMC)

Chart courtesy of Yahoo 2/21/14

What might have contributed to big price moves in the period examined (recent 1 month) of each of the named gainers/losers?

Gainers

Frontier Communications Corporation (FTR is a communications company providing services primarily to rural areas and small and medium sized-towns and cities in the United States. Identified much larger than expected earnings on February 24th. Earnings were $0.07 compared to the $0.06. On the 17th of March the company also introduced a new product, AnyWare, which is a cloud-based VoIP service. It is a converged voice and enhances management
capabilities (Frontier). The company also offers an 8% dividend making it attractive to investors who seek dividends.

First Solar (FSLR) is a leading global provider of comprehensive photovoltaic solar energy solutions (firstsolar.com). The company has strengths and weaknesses. They are in the process of creating the largest solar farm this year in California this year. However, the company has consecutively missed on earnings. February 26th the company reported earnings of just $0.89 per share, when projected earnings per share was $0.98. On March 19th the stock hit a one-year high of $70.99. There are two reasons for such a big gain. The first was the company announcing its guidance figures for 2014, 2015, and 2016. Figures show that EPS for this year will be $2.20-$2.60 and 2015 EPS $4.50-$4.60. The other reason was because they announced a partnership with GE to create a productive, cost-effective utility scale PV power plant design. GE provides the transformer system, ProSolar 1500, which First Solar provides a thin-film cadmium-telluride (CdTe) module. The company announced that their module provides world-record setting research for CdTe efficiency at 20.4%.

Losers:

Salesforce.com (CRM) is a provider of enterprise cloud computing and social enterprise solutions. They are also the leader of customer relationship management software that is much further ahead than its competitors. On February 27th they reported $0.07 EPS, out performing analysts consensus by $0.1. After being at a record high, analysts were speculative because the company needs to make more money. This caused the sudden drop in the beginning of March. Insiders are selling the stock, which can contribute to some decreases in price. On March 18th, Alexandra Dayon sold $2 million dollars worth of shares. The company has still not been profitable and post losses for several quarters in a row, causing some investors to be speculative. Others say this is a norm for most SaaS companies.

Symantec Corporation (SYMC) is a computer security and back up solution Software Corporation. On March 21, 2014 the company terminated its CEO Steve Bennett. They tried to downplay the termination through a press release stating that it was a result of ongoing process and did not happen due to a sudden event (news.investors.com). This position has not been the most ideal seeming how the last leader only lasted 3 years now Bennett only lasted 2 years. The company also has not been reporting good earnings with $1.05 versus the $1.57 last year, which is not good because security stocks have increased due to breaches like what happened with Target (TGT).
Identify two largest sector gainers and losers of during recent 3 month. Copy/paste a 3 month price chart of the two largest gainers and losers here.

Gainers:

First Solar Inc. (FSLR):

![Chart courtesy of Yahoo 2/21/14](chart1)

F5 Networks, Inc. (FFIV):

![Chart courtesy of Yahoo 2/21/14](chart2)
Losers:

SYMC:

Chart courtesy of Yahoo 2/21/14

Total system Services, Inc. TSS:

Chart courtesy of Yahoo 2/21/14

What might have contributed to big price moves in the period examined (recent 3 month) for each of the named gainers/losers?

Gainers:

First Solar (FSLR) was going strong the first week of the New Year until January 6th when Goldman Sachs downgraded them from buy to sell. The stock dropped $56.74 to $51.26 after
this announcement. Throughout the month of February investors waited for earnings to come out and there was little news on the company. The few articles that were found stated that solar energy is growing and will be more pertinent in years to come. Through decreasing the cost per watt from $0.67 to $0.59 in the third quarter of 2013. As stated in the one-month review, the company took a drop again once earnings came out and did not rally until the announcement of recent partnership with GE.

F5 Networks, Inc. (FFIV) develops, markets, and sells application delivery networking products that optimize the security, performance, and availability of network applications, servers, and storage systems. On January 13th the stock was upgraded to outperform by William Blair & Co. analyst Jason Ader. He wrote that F5 is benefiting from increased sales of its application delivery. Also, the company is providing network traffic and security management services to the new Verizon Cloud. January 22nd the company released earnings and missed by $0.03 with their $1.17 EPS. However, revenues not only surpassed previous years, but also outperformed Zacks Consensus Estimate. Reported revenues were $406.4 million out performing the $396 million estimate. Outlooks for second quarter are promising as well, ranging revenues $408 million to $418 million and EPS range $1.32-$1.26. The company mentioned that it would continue investing in technology to keep up with changing trends such as cloud exposure. Investors recommend a buy on this stock because of the positive outlooks on the stock. Besides the average projections, the company holds a reasonable amount of debt and good cash flows. There are 24 analysts issue a “Buy” as 24 analysts issued a buy.

**Losers:**

Symantec Corporation (SYMC) tops the biggest loser for 3-month outlook as well. Before the termination of their CEO, the company struggled in January. Leading up to the sudden drop, the company reported $0.51 EPS beating the consensus by $0.08. However, the company’s revenues are down from where they were in 2013. On January 31st, ex CEO Steve Bennett told analysts to expect 2014 to be another transition year for Symantec. His announcement was after they had a 5 percent fall in revenues. Every aspect of their business portfolio is lacking: 42 percent of their revenue comes from its protection business, which is down 4 percent. Its information management adds 39% of revenue, which is down an even greater 27 percent this year. Symantec was not the only stock to end a rocky trading month. January 31st all major indexes were down. Also during the month Consumer Sentiment Index fell along with discouraging job report that showed personal incomes were down. Specific company issues along with overall market issues contributed to this loss.

Total System Services, Inc (TSS) is a global payment solutions provider that provides services to financial and nonfinancial institutions. On January 28th the company released earnings and reported $0.48 earnings per share beating analysts estimates by $0.01. Revenue was $600.80 million for the quarter, $15 million short of estimates. The reason that the stock rallied after
dropping was due to an analyst endorsement. Robert W. Baird called this weakness a buying opportunity. Also, the stock could have been oversold in the end of January pushing the price back up. On February 20th the company saw a small rise in price, which was due to the increase in stake in Central Payment (CPay) from 60 percent to 75 percent.

(A-3) Two Largest Stocks in the Sector

Identify two stocks with the largest weight in the sector ETF. Copy/paste a 1 month price chart to include the two stocks, sector ETF and SP500 here.

Apple Inc. (AAPL)

![Apple Stock Chart](image_url)
Highlight noteworthy news, announcements, or events relevant to the two stocks.

Apple is now talking with Comcast about streaming-TV service. The company wants separate broadband so that they can bypass congestion. It is still early in the talks, but still has investor’s attention. Headlines also included talk about the iPhone 6 that investor’s say could actually increase profits by 20%. Another anticipation for the company will be a new product to compete with other smart watches. On the announcement of Microsoft Office for iPad, investor’s believe it will increase Apple share price as customers have been awaiting this to complete their tablet.

Google recently has been working with Ray-Ban, Oakley, and prescription eyeglass companies to support Google Glass. This product will be interesting to see in the coming year. On March 17th a Turkish hacker crashed the Google app store, Google Play, twice over the last week. Google Hangouts and Gmail Chat also went down due to the hack.

(A-4) Short-term (up to Three Months) Outlook of the Sector

What is your short-term (up to three months) outlook of the sector? Provide arguments in support of your view.
In the coming months the Information Technology Sector will perform along with the other sectors in months to come. However, I believe it will not be a top-performing sector in the next few months and will not perform as the top until later this year. The reasoning behind this is that investors are bullish towards mobile and cloud computing. Companies are building their product lines to be innovative in these areas, but no one has made a market changer thus far. The other reason the sector will continue to perform in line, social media (Fred Dickson). Social media companies are changing the sector. Facebook’s (FB) recent purchase of WhatsApp is one example of an acquisition to be a market mover. The company is trying to change the way people interact and strongly believe this will help.

After discussing the market outlook with Fred Dickson on March 24, 2014, he explained how in near future investors are bullish on mid cap stocks and not as much on the large cap stocks. This is because large cap technology stocks are already established after a strong year. Given, mid cap stocks hold more risk; investors are still bullish to seek gains after overcoming the macroeconomic and geopolitical factors that were incurred the previous two months. However, the ETF XLK does not focus on what investors are searching for to find gains right now.

Since the sector is cyclical, it depends on the domestic state of the economy over the next few months. Most of the spending is discretionary rather than enterprise. With interest rates rising later this year and next it will effect the sector, but should not be effecting in the next coming months. It will also depend on earnings when they are reported next month. Until earnings it will be speculative how the performance will be, but in the meantime I believe it will be a mediocre performing sector.
Works Cited


