CIF Sector Update Report (Spring 2014)

Sector: Technology  Analyst: Kennan Adams

Presentation Date: 4/21/14

Review Period: Start Date: 3/20/14  End Date: 4/15/14

Section (A) Sector Performance Review

(A-1) Sector Performance Relative to SP500

<table>
<thead>
<tr>
<th>TEC</th>
<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>SNX</td>
<td>1864.85</td>
<td>1860.77</td>
<td></td>
<td></td>
<td>0.22%</td>
<td></td>
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</tr>
<tr>
<td>Sector ETF</td>
<td>XLK</td>
<td>$36.03</td>
<td>$36.37</td>
<td></td>
<td></td>
<td>-0.93%</td>
<td>12180</td>
<td>$438,845.40</td>
<td>-1.15%</td>
<td></td>
</tr>
</tbody>
</table>

One-Month Price Chart (XLK and S&P500)
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 sector has underperformed the S&P 500 for the better part of the review period. There were occasional peaks that surpassed the broader market but generally the technology sector has reacted more drastically during times of market downturns. The technology sector relies heavily on market sentiment, and is a follower to other leading sectors, which drive market success more efficiently. Because of this, the technology sector has experienced difficult times as the market is currently front-loaded and companies within this sector are playing a game of catch up. Additionally, recovery from less than impressive earnings reports from 2013 have made investors weary of the thought of investing in these volatile positions. Currently, market leaders like Google and IBM are not showing as much growth as hoped and in turn are dragging down the sector even further. Overall as a sector, the underperformance is not horrendous but is far from ideal. There have been quite a few companies making acquisitions during late 2013 and early 2014, most notably of those being Facebook and their absorption of WhatsApp and Oculus for $16 billion and $2 billion respectively. These companies are extremely difficult to value, which immediately raises red flags concerning the over valuation of these massive takeovers. These indefinite actions create uncertainty, which could also be a cause for the underperformance as of late.

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

(4/17/14) Google is still a strong position, despite underperformance in the first quarter, according to Reuter’s analysts. Of the 46 analysts covering Google, 35 still recommend a buy and none recommend the selling off of this position. Google has struggled to adapt to the rapid change to mobile advertising but are keen in fixing this problem in the short term.

(4/17/14) Microsoft’s Xbox One has finally reached 5 million in console sales after its launch in November 2013. In January, Microsoft claimed that they had sold 3 million at that point so sales have definitely slowed since the unveiling. Their main gaming competitor, Sony who released their PlayStation 4 around the same time as the Xbox One, apparently have sold over 7 million units and are struggling to keep up with consumer demand.
Blackberry has purchased a minority stake in a private healthcare IT firm called NantHealth, in an attempt to construct a turnaround. This attempt is geared towards a more corporate clientele such as banks, law firms, and government agencies. Their relatively new CEO John Chen, sees the healthcare sector as a space where both parties can benefit from collaboration. Their idea is that they would be able to more effectively manage secure data on mobile devices.

**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.

**First Solar Inc (FSLR) +19.11%**

![Price Chart](chart.png)
Frontier Communications Corp (FTR) +16.87%

Facebook (FB) -14.26%
What might have contributed to big price moves in the period examined (recent 1 month) of each of the named gainers/losers?

First Solar most likely experienced a jump in share price due to their power purchase agreement with Jordan to build a 52.5 megawatt solar power plant in the Hashemite Kingdom of Jordan. This contract will last for 20 years, and was announced on March 18th, just two days before the review period started. Frontier Communications expanded their partnership with Crius Energy to include solar services to residential customers under the brand name “FTR Energy Services”. They are going to be offering their products and services in select states in the northeastern part of the United States and plans to expand over to the west coast after launch. This announcement came at the start of the review period on March 20th. Facebook’s stock declined 14.26% over the review period as well did Alliance data systems, declining 13.03%. These drops are most likely due to macroeconomic trends and risks that have affected the entire technology sector. These factors were magnified for Facebook especially because they are one of the largest holding within the sector.
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.

**First Solar Inc (FSLR) +29.76%**

![First Solar Inc (FSLR) +29.76% chart](chart1.png)

**Electronic Arts (EA) +14.40%**

![Electronic Arts (EA) +14.40% chart](chart2.png)
NetApp Inc (NTAP) -19.38%

VeriSign Inc (VRSN) – 18.15%

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

First solar has experienced growth during the 2014 calendar year thanks to new contracts for solar plants as well as overall quality earnings in 2013 and high future growth estimates. The Jordan contract was the most recent reason for the upturn and seemingly will continue this push. Electronic Arts has experienced a great start to 2014 with 14.40% growth over the last
three months. EA had fell upon hard times in the gaming industry over the last couple years due to botched unveilings of certain games and controversy in their pricing and making customers purchase additional levels for existing games. This growth has had much to do with the joint success of Sony’s PlayStation 4 console and Microsoft’s Xbox One. Although sales for the Xbox One are much slower than the PlayStation, EA makes games for both consoles, giving them a great source of revenue from either side. NetApp has experienced a steady decline in share price over the last three months of 19.38%. NetApp is a large data storage company that charges a fee to customers in exchange for the storage of corporate data and the management of that data. NetApp charges about a million dollars per petabyte (one thousand terabytes). They are currently being undercut by start ups that are finding ways to cut these management fees and offer a cheaper option to these same companies. Exablox, a start up out of California, is now offering customers the same amount of storage space for just $41,000, more than a 95% difference. VeriSign, the world’s largest domain name distributor, fell 18.15% over the last three months. There has been a recent trend towards the cheaper .net domain name suffix rather than the traditional and more expensive .com ending of domain names. This change has brought about lower revenue amounts and poses a threat in the future. Overall, this decline is related to macroeconomic risks associated with the technology sector.
(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.

Highlight noteworthy news, announcements, or events relevant to the two stocks.

Apple is in the midst of a legal battle along side Google, Intel, and Adobe against 64,000 tech workers in Silicon Valley over, which could hit a collective $3 billion in payouts of things go south for these four massive technology companies. This case is scheduled for the end of May. Apple has been roped into quite a few lawsuits recently including ones related to patent infringement of products and services on its iOS, e-book publisher price fixing allegations, and other patent infringement related allegations. On the management side, Peter Oppenheimer, Apple’s senior vice president and chief financial officer will be retiring in September. Apple is expecting a seamless transition between Mr. Oppenheimer and his successor Luca Maestri, their current Vice President of Finance and corporate controller. Apple has been right around the S&P 500 over the last three months, and generally above the sector ETF, ignoring a slight dip in the last couple weeks.

Microsoft previously did not have their Office 365 services available in China, but thanks to 21Vianet Group, China’s largest internet data center servicer, paying customers are able to access the cloud based service. This is a huge gain for Microsoft as they are now able to function in one of the most heavily populated areas in the world. Microsoft has been strengthening its partnerships with smaller tech firms as of late. Ooyala and Microsoft teamed up to produce a multi-screen digital television, mainly for the use of broadcasters and operators. CompuGroup Medical AG has been developing a mobile app for Healthcare
companies and services with Microsoft. One of the biggest connections is with Dell as Microsoft agreed to a patent licensing agreement. Overall, Microsoft’s sentiment is fairly high right now with the signing of their new CEO and slight organizational restructuring. They are currently outperforming their sector ETF and the S&P 500.

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

I think that the technology sector is reacting sluggishly after a rough market to start the year off. Market leaders, like the financial sector, are seeing quite impressive earnings reports and are driving the market nicely. I expect the technology sector to follow suit in the near future. With that said, I do think there is a tech bubble looming in part due to the mergers and acquisitions taking place for massive amounts of money. This is one of the most volatile sectors and is showing how volatile it can be over these last couple months and I expect that trend to continue. Some of the sector heavyweights like Apple, Microsoft, IBM, and Google are all very mature companies who are struggling to keep their market share exclusive from other start up companies and from each other as innovation rates keep increasing. The barriers to entry for the technology sector are crumbling unlike any other sector, which is a major driver for this volatility. I expect these companies to continue to acquire other smaller firms in hopes that they can absorb creativity rather than getting beaten by it.

Part B – Portfolio Holdings Update and Recommendations

There are currently no positions held in the CIF within the Technology Sector.
Work Cited


