



Tech-know-babble

Technology Select Sector (NYSE:SPDR XLK) offers investors a relatively diverse exposure to the technology sector. This exchange traded fund (ETF) contains all the technology companies in the S&P 500 Index with industries represented in the fund's index including: Internet and IT services (13% of assets), software (19%), communications equipment (15%), computer and hardware manufacturing (26%), semiconductors (11%), and telecom services (17%). XLK has one of the highest average market caps in the technology category and its focus is on profit-generating tech leaders. The predominance of large-cap companies does not immunize the fund from risk, but it does make it a little less volatile than a typical technology ETF. It has been known, however, to trail its rivals in market rallies. The fund's top five holdings (see Table 1. below) comprise approximately 40% of total assets (US\$2.89 billion), leaving performance highly dependent on a select few companies. But this isn't necessarily a bad thing, as these companies have proven business models, long track records, and sustainable competitive advantages.

Table 1. XLK's Top 5 Holdings

Company	Weight (%)	Price as at 30 July 2009 (USD)
Microsoft Corporation	10.26	23.81
AT&T Inc.	8.27	26.34
International Business Machines Corp. (IBM)	7.78	117.86
Apple Inc.	7.17	162.79
Cisco Systems Inc.	6.07	21.98
% Assets in top 5 holdings	39.55	

Other notable names in the fund include Google Inc (4.85% net assets), Hewlett-Packard Company (4.61% net assets), Yahoo Inc. (1.27% net assets). Though limited to U.S. companies, the majority of the firms included in this fund generate a hefty portion of their profits in the international market, making it easier for this fund to counteract the effects of a prolonged U.S. consumer-led recession. XLK has proven itself thus far with year-to-date (YTD) returns of approximately 25% and a 3-month trailing total return of roughly 15% as at 30 July 2009. In comparison, the S&P 500 Index has been up 5.9% while the NASDAQ Composite has been up 21.6% YTD. Of late, focus has been on a couple of the more popular stocks in XLK and we shall explore these in more detail.

After a long and tedious courtship, Microsoft Corp. and Yahoo Inc. have finally struck an online search and advertising partnership in an attempt to better compete against search juggernaut Google Inc (dominating over 70% of the search engine

market). The second and third place search engine companies announced the 10-year deal on 29 July 2009 with the following stipulations:

- Microsoft's Bing as the power behind Yahoo's search engine while Yahoo will be responsible for selling premium search ads for both companies
- Microsoft will acquire an exclusive 10-year license to Yahoo's core search technologies which it will combine with its own
- Microsoft will pay Yahoo traffic acquisition costs (TAC) at an initial rate of 88% of search revenue generated on Yahoo sites during the first 5 years of the agreement
- Microsoft will guarantee Yahoo an undisclosed amount of revenue per search in each country for the first 18 months following initial implementation in that country
- Estimated boost to Yahoo's annual operating income by about US\$500 million, capital expenditure savings of \$200 million and an increase in annual operating cash flow by about \$275 million at full implementation (24 months).
- Both companies will continue to compete vigorously in the other areas of their businesses such as web properties and products, email, instant messaging and display advertising.

The companies expect the deal to be closely reviewed before being approved by regulators but are hoping they can close in early 2010. Some investors were disappointed by the deal as no upfront cash payment was made to Yahoo causing Yahoo shares (YHOO) to fall more than 15% in two days to close at US\$14.60 on 30 July 2009. During that same period, shares of Microsoft (MSFT) climbed 1.5% to close on US\$23.81 while Google (GOOG) shareholders seemed unfazed as the stock price rose by 1.3% to US\$445.64. Year-to-date, YHOO gained 13.6%, MSFT 18.7% and GOOG surged 38.7%. Accepting the higher TAC rate over a "boatload of cash" may be better for Yahoo in the long run. The structure of the deal will make execution very challenging and if implementation proves to be difficult for marketers, advertisers may end up running into the welcoming arms of Google to the detriment of both Microsoft and Yahoo.

As Microsoft attempts to grab a bigger piece of the search engine pie, Google is going after Microsoft's cash cow by developing a free operating system (OS) for web browsers targeted at netbooks called Chrome OS. This web-based OS will aim to integrate all of the applications regularly used (such as email, calendar and documents) into a browser, allowing users to store data on the web applications and not on their computer. Chrome OS, though, isn't supposed to hit the market until the second half of 2010. Will people buy it? Probably not initially, as the average user would prefer to pay extra to have the all-too-familiar Microsoft rather than a free OS that may take some getting used to. But Chrome OS is creating quite a stir in the hearts of open-source 'techies'. Google has already enjoyed success with a mobile phone operating system, Android, that competes directly with Windows Mobile. Google's share price climbed approximately 5% in the month of July 2009 alone.

In other talks about town, Apple (AAPL) is looking to launch a portable tablet-sized computer in time for Christmas. The computer will have a touch-sensitive 10-inch screen and internet connectivity. It is described by one executive as a "colour, flat-panel TV to the old-fashioned, black and white TV of the Kindle" which will allow users to listen to music (it will encourage the sale of whole albums as opposed to single tracks), read electronic books and watch movies. The portable entertainment device has already caught the attention of recording industry executives, book publishers, Hollywood executives and video game publishers. Apple's share price has skyrocketed an amazing 79% YTD and is up 14% for the month as at 30 July 2009.

In the top 25 companies in XLK, based on percentage of net assets, only 3 companies have negative YTD values [AT&T (-3.62%), Verizon (-0.62%) and Automatic Data Processing (-5.06%)] and only one of those three is in the top 5 of net assets

holdings. XLK is diversified enough for the novice trader to minimize the risks associated with trading any one of the individual stocks included in the ETF and is currently providing a more than sufficient return even in a volatile market. As second-quarter earnings reports pour out, the majority of companies (3 out of 4) on the S&P 500 have reported results that have topped analysts' expectations. With the technology sector poised to maintain market leadership, XLK is definitely worth keeping an eye on.

Table 1: Regional Market Performance (as at 30 July 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	786.00	1.28	0.82	-6.75	-32.94
All Trinidad	1,099.08	1.82	1.68	-4.82	-29.86
JSE Index	80,032.93	-0.23	-1.03	-0.15	-27.30
JSE Select	1,773.28	-0.53	-1.87	-10.65	-41.61
All Jamaica	65,200.90	-0.49	-2.24	-11.88	-40.58
BSE Composite	843.72	-0.13	0.01	-8.28	-21.21

Table 2: International Market Performance (as at 30 July 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	986.75	1.07	7.33	9.24	-23.17
Nasdaq Composite	1,984.30	0.54	8.13	25.83	-14.83
Dow Jones Industrial	9,154.46	0.94	8.38	4.31	-19.68
German Dax	5,360.66	2.16	11.48	11.44	-17.02
FTSE 100	4,631.61	1.57	9.00	4.45	-14.56
Nikkei 225	10,165.21	3.80	2.08	16.21	-23.96
Hang Seng	20,234.08	2.10	10.10	40.64	-10.83
DJ Eurostoxx	2,654.74	2.67	10.54	8.29	-21.16

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