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Tech Spending: Where are the Deepest Pockets?

In our view, technology spending in aggregate has been closely linked to top-down economic health indicators, as well as sentiment indicators such as CEO confidence, which tends to plummet in rough economic times. Therefore, our concern for U.S. economic health keeps us wary about becoming overly favorable on the technology sector, despite what we view as a number of attractive characteristics, including reasonable valuations, solid balance sheets, and lack of direct exposure to the ongoing credit meltdown.

However, there are a number of technology-driven end-markets for whom economic hardships are simply non-evident at the current time due to unique factors in the marketplace. We took a dive into some of the names currently held in our portfolios to come up with companies and funds that currently appear to be benefiting from these factors, including some outside the classical definition of *tech*:

No Bear Market For Technology Spending In The Following Industries

Energy and Energy Conservation

- **Schlumberger (SLB-N-\$98.98)** ◊ As the world's largest oilfield services company with an industry-leading position in drilling technology, SLB is well positioned to capitalize on the elevated price of oil. SLB's technology services help clients extract more usable oil from existing wells, a necessity in the era of \$100+ bbl oil, escalating exploration costs, and declining reserves.
- **Texas Instruments (TXN-N-\$31.57)** ◊ Many diversified semiconductor companies, such as TXN, are pursuing the fast-growing power management end market. Power management chips, as implied by their name, are designed to make a wide variety of consumer and industrial products (from iPods and cell phones to washing machines, automobiles and industrial vehicles) use energy more efficiently. While not yet a large contribution to overall revenue, TXN's recent introduction of single-chip power management integrated circuits (ICs) are designed to minimize power usage in multi-kilowatt communications, server, and industrial systems, providing potential power savings of sometimes over 25%, according to *Information Week*. We expect a leading semi firm like TXN to continue to make strides in this high-growth vertical.

Emerging Markets

- **IBM (IBM-N-\$127.84)** ◊ According to the *Financial Times*, this software/services/hardware tech behemoth derived more than 25% of its growth in 2006 from the emerging markets, enjoying the strong recognition that comes with having a truly global iconic brand like Big Blue. Furthermore, unlike fellow global giants such as Microsoft (MSFT-O-\$27.31), the enterprise-level, multi-million dollar suites of bundled software and services IBM sells is complex enough to be able to help minimize the enormous problem with software piracy in emerging markets.
- **Cisco Systems (CSCO-O-\$26.34)** – In our opinion, CSCO is one of the best-positioned tech companies in the world to capitalize on the tremendous growth in emerging markets, from the high-brand equity that CSCO enjoys in India and China, to CEO John Chambers' deft political maneuvering in emerging geographies (Chambers is a legendary political networker and something of a constant presence in such markets; his profile increased by the company's United Nations-endorsed funding of academies to train future IT workers even before selling product there). CSCO's leading line of telecom equipment (routers, switches, etc.) is essential for the needs of an emerging demographic, in our view, including VoIP (Voice Over Internet Protocol), IP video, mobile computing, and Internet bandwidth demand growth.

Agriculture Technology

- **Claymore S&P Global Water Index ETF (CGW-N-\$25.74)** ◊ While the world's water infrastructure ages and suffers from lack of investment, the demand for water continues to grow with global population rates. Drinkable water as an essential input for human life is the obvious part of that equation; however, a less known fact is the extent to which heavy industry needs water as a crucial input to manufacturing processes. A recent *SmartMoney* article highlighted the startling fact that it takes 62,000 gallons of water to make a ton of steel, and 3,000 gallons to make a single semiconductor chip. All of this underlines the need for continued investment in water technology, which we believe can be effectively done in a diversified way with a water-focused exchange-traded fund (ETF) such as CGW.

- **Market Vectors Global Agribusiness ETF (MOO-N-\$62.80)** ó While most of the underlying holdings of MOO aren't what many investors would think of as "technology" companies, we beg to differ. We think there is plenty of technology that goes into industries such as fertilizer and next-generation farm equipment. Because many of these stocks tend to be volatile, we prefer playing the theme in a diversified way via an ETF such as MOO.
- **Deere & Company (DE-N-\$80.93)** ó Farmers might be one of the most liquid consumer groups in America today, with profits buoyed by the skyrocketing price of grains and other soft commodities. In times like these, farmers often use those farm cash receipts to invest for their future capacity and efficiency by upgrading their technology; DE's technologically savvy and well-respected line of tractors, harvesters, combines and irrigation equipment is often the place to start.

*Chris Konstantinos, Portfolio Risk Manager • 804-549-4810 • ckonstantinos@riverfrontig.com • www.riverfrontig.com
Riverfront Investment Group, 9011 Arboretum Parkway, Suite 110, Richmond, VA 23236*

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