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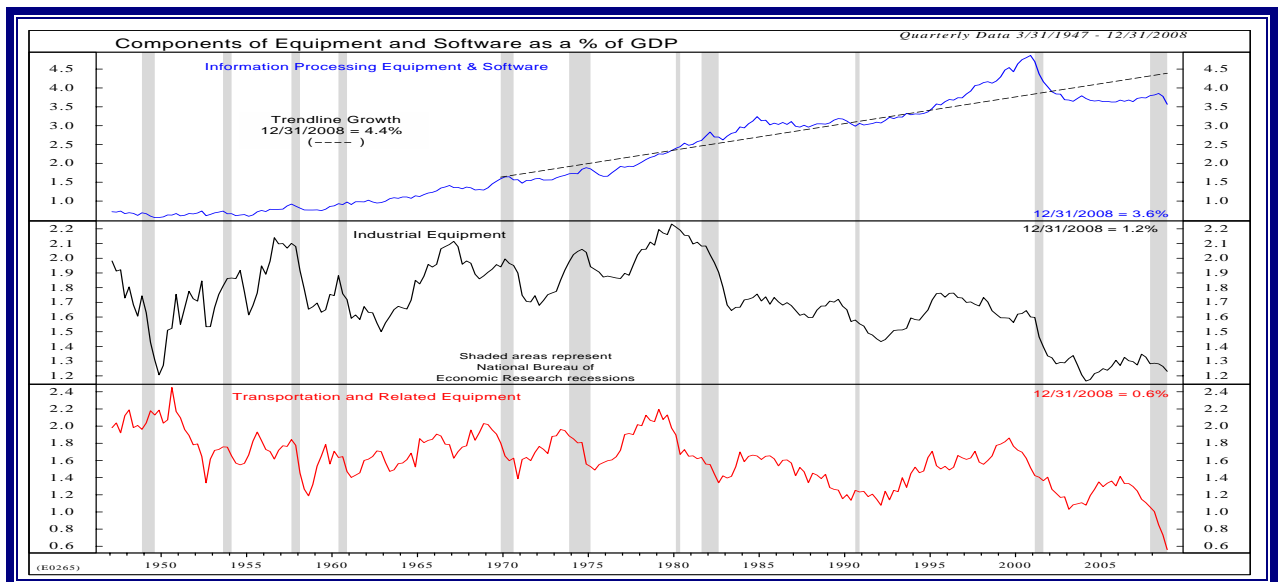
“CLOSE UP”- THE TECHNOLOGY SECTOR

Have Investors Discounted a Recovery in Semiconductor Sales?

The Technology Sector Revisited:

➤ As the bear market bottoms coincident with investor confidence, we can see an imminent recovery taking form by year end, and would expect the Technology Sector and more specifically the semiconductor-related industries to begin improving. Their absolute and relative performance could start to show market leadership as the general recovery begins to take shape. Our overweight position in the semi conductor group partially offsets our aggregate underweight position in the overall Technology Sector against the Standard and Poor’s 500 weight of 17.0%. Despite the global slow down continuing to impact tech spending, crimping demand for semiconductors and semiconductor equipment, we don’t want to lose sight of the positives. While the particular demand for personal computers, cell phones, vehicles, and consumer electronics has weakened markedly, with real tech spending falling at nearly 24% annualized rate in Q4 and the biggest drop since at least 1990, it is important to note that this drop off was over ¼ more than the 18.6% drop seen in the second quarter of 2001 and the largest drop since the tech bust 8 years ago. The Technology Sector in general appears to have discounted one of the most rapid liquidations in 14 years with tech spending in the fourth quarter of 2008 only 3.6% of GDP. This marks the smallest share of spending since Q3 1995 at the earliest stages of the tech bubble. Tech spending as a percentage of GDP peaked in Q2 2008, two quarters into the current recession, and has fallen 0.3 points through Q4. In comparison, the ratio fell less 0.2 points from peak to trough in both 1973-75 and the 1981-82 recessions.

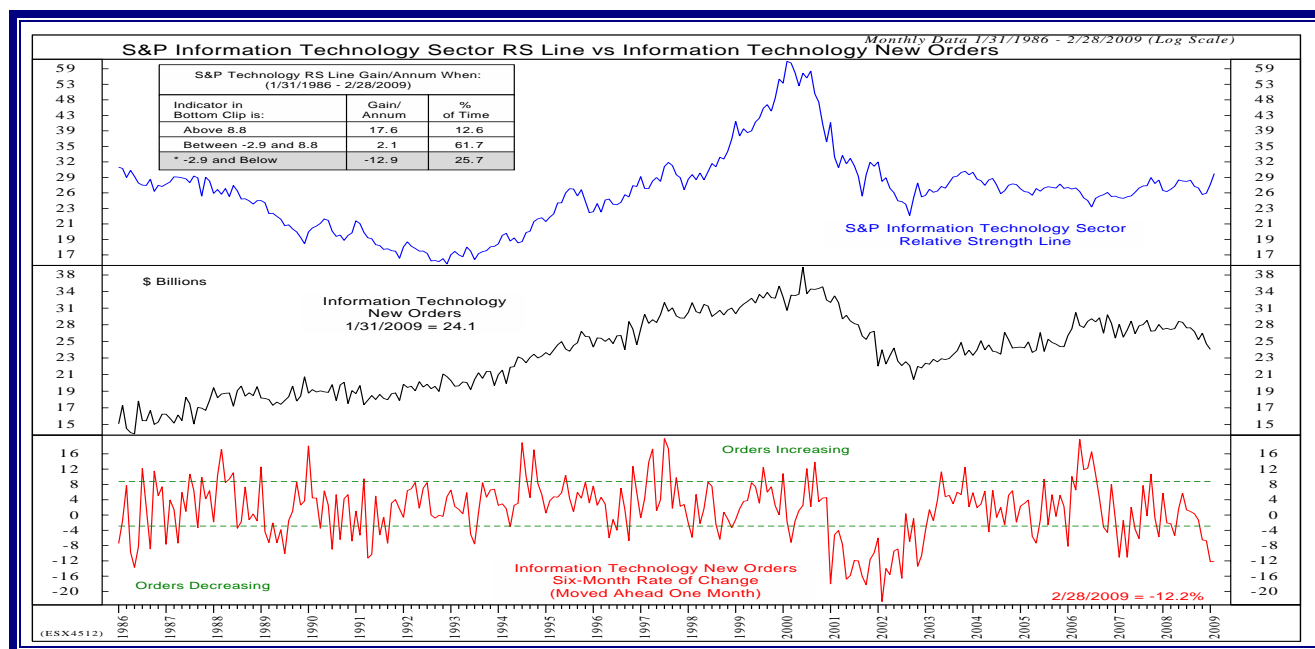
EXHIBIT I



SOURCE: Ned Davis Research, Inc

- **Orders from the U.S. information technology industry**, which excludes semiconductors, declined 3.3% in January to \$24.1 billion, the fewest since July 2005. That's 12% lower than they were last July, the biggest six-month decline since October 2002, after the tech bubble burst.

EXHIBIT II



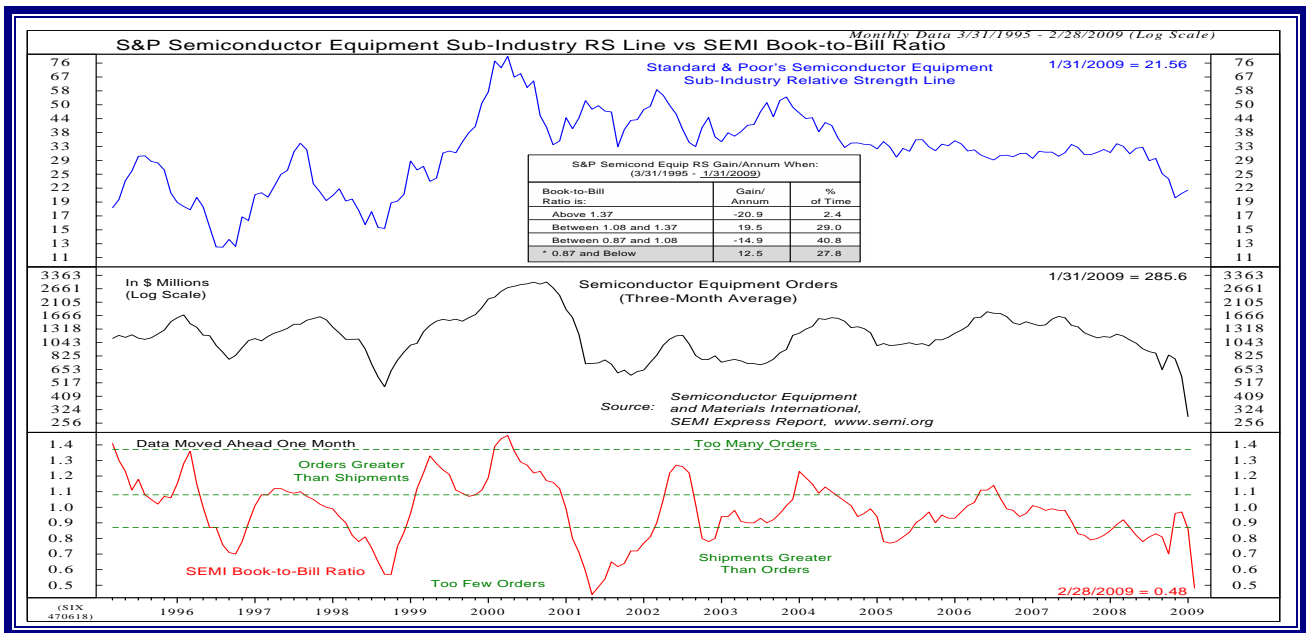
SOURCE: Ned Davis Research, Inc

- **Manufacturers have cut production accordingly**, reducing high tech capacity utilization by 21.6 points from its peak of 81.5% in April 2008 to fewer than 60% for the first time since February 2003. That's the fastest drop since at least 1986 when records began.
- **Despite the rapid reduction in production, demand continues to fall even faster**, causing inventories-to-shipments ratio to rise as high as 171% in December, the most since February 2003. That's 7.9% higher than trend, the most out of line since March 1989, suggesting further cuts in production will materialize.

Semiconductor Fundamentals- A Silver Lining

- **Looking at the semiconductors industry**, sales of North American-made semiconductor equipment plunged a record 50.7% in January to an estimated \$258.6 million. This drop on a three month average rate basis was the lowest level ever. Sales are 75% below a year ago, the worst decline since the second half of 2001 during the tech burst. That caused the book-to-bill ratio to plummet 0.38 points to 0.48, a reading seen only once before in April 2001, when the tech bubble burst. But levels that low suggest that we may have seen the worst at least on a short term basis, and have tended to coincide with stabilization in the relative performance of the semiconductor equipment sub-industry.

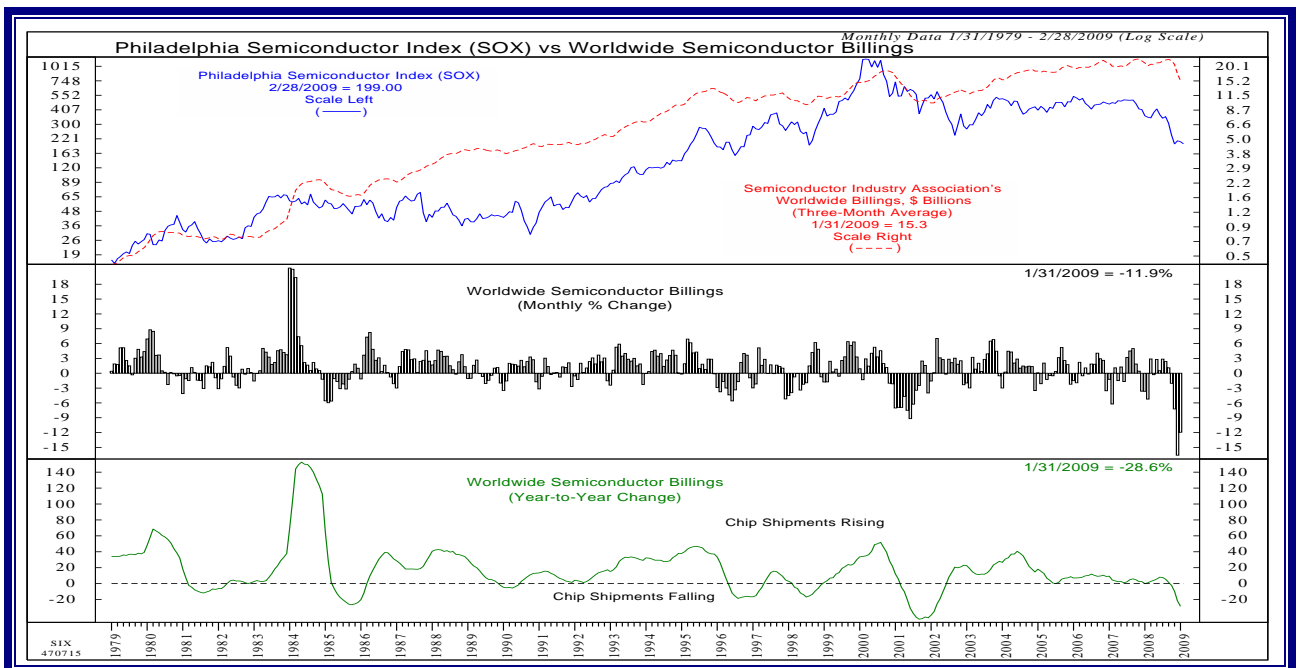
EXHIBIT III



SOURCE: Ned Davis Research, Inc

- **Global semiconductor sales plunged another 11.9% in January**, on a three-month average basis, on top of December record 16.5% decline, to \$15.3 billion, its lowest level since September 2003. While it started with DRAM products, the decline has now become broad based, spanning all regions and products. Sales are 28.6% below a year ago, the most since February 2002.

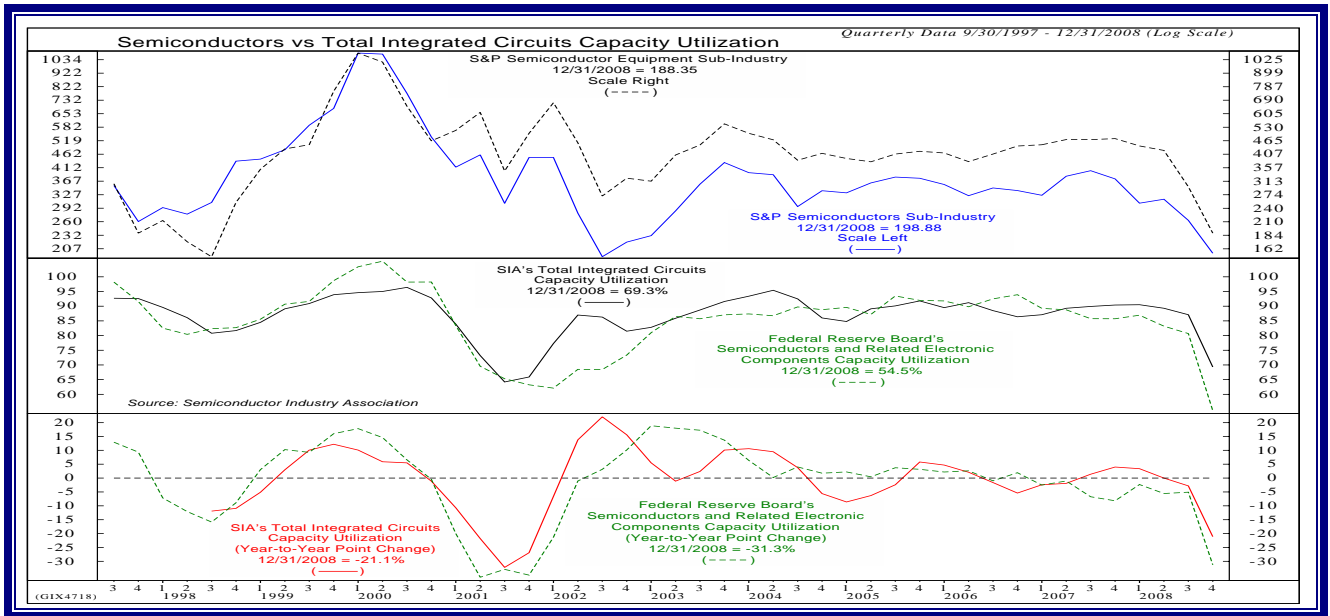
EXHIBIT IV



SOURCE: Ned Davis Research, Inc

- **The drop-off in demand for both the semiconductor chips and the semiconductor equipment** has forced U.S. Manufacturers to cut production, leading to the lowest integrated circuits capacity utilization since the second half of 2001, and the weakest broader semiconductor and related electronic components manufacturing since at least the 1970's. That's a reduction of over 20% in the past year, the most since Q4 2001.

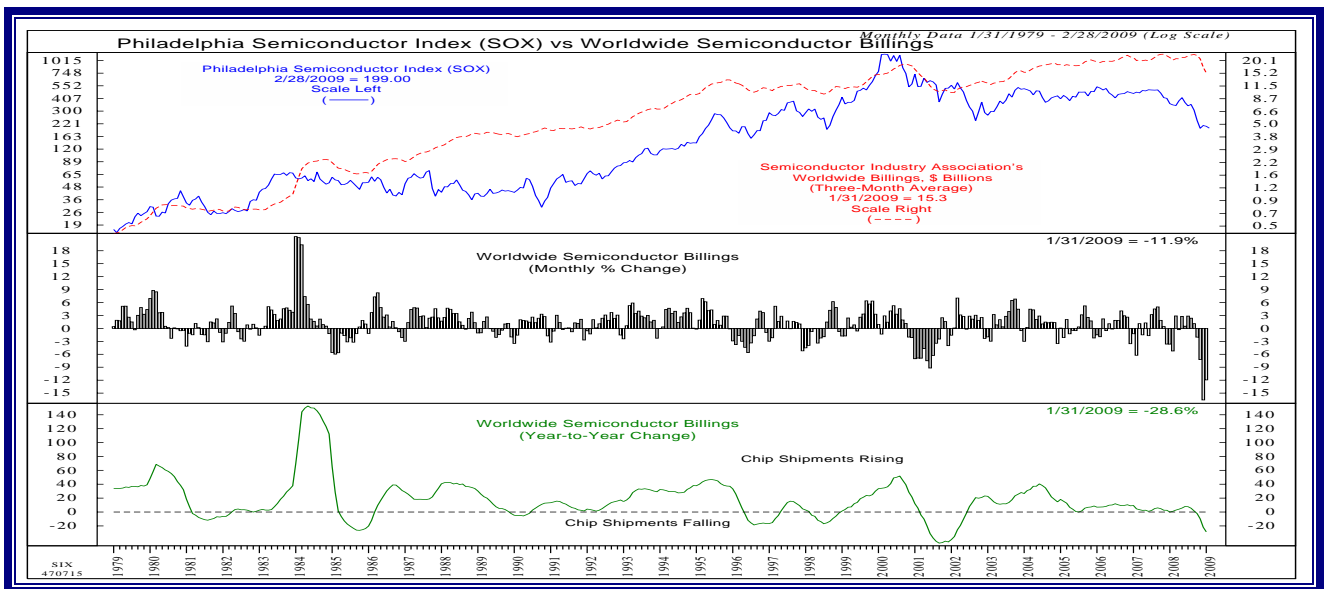
EXHIBIT V



SOURCE: Ned Davis Research, Inc

➤ **As the macro environment continues to deteriorate and demand is expected to remain weak,** research firms such as Gartner and IDC have once again sharply lowered their forecasts for global chip sales this year. Gartner is expecting a drop of 24% according to Ned Davis Research and IDC has lowered its forecast to a 22% decline. Both are looking for a recovery in 2010 at the earliest. Gartner also noted that during the tech bubble, sales fell by 1/3 the year following the peak and took four years to recover to its prior high. IDC expects overall U.S. tech spending to be essentially flat in the coming year, with only 3.4% in software and services offsetting a 3.6% decline in hardware.

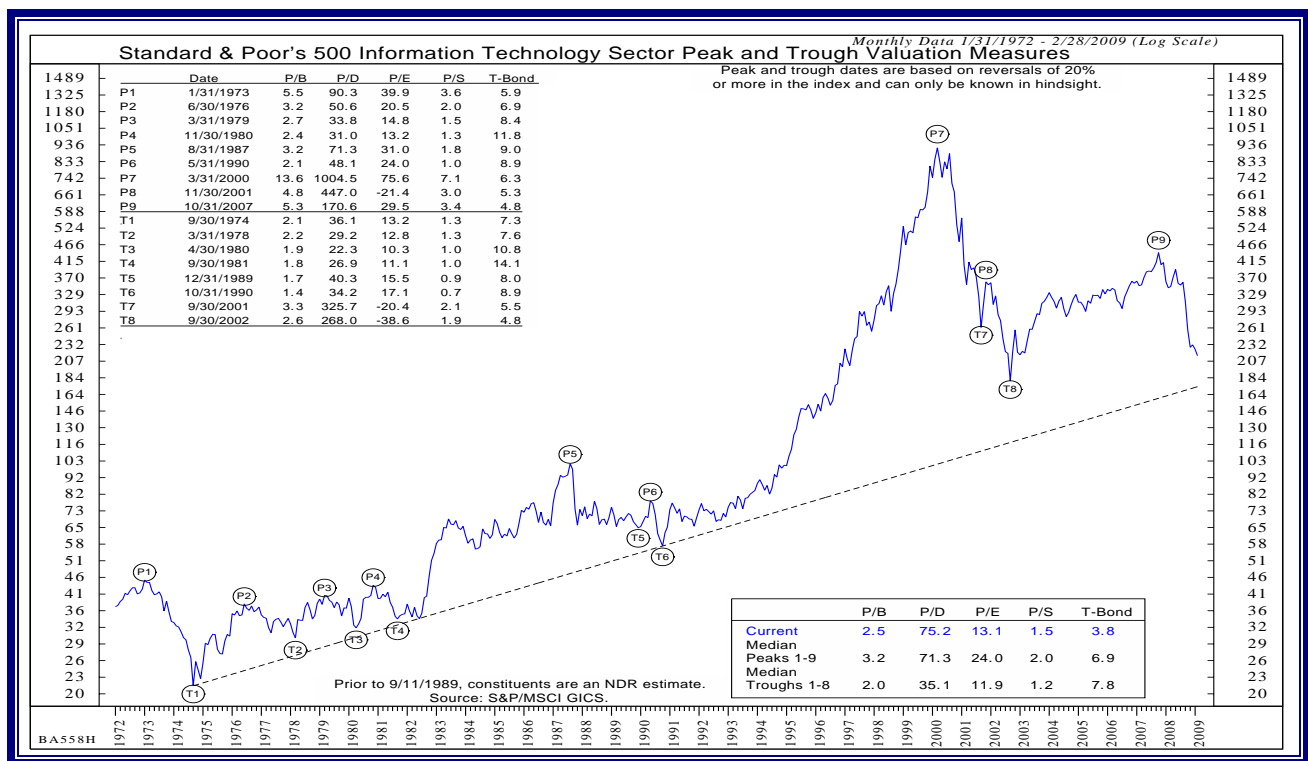
EXHIBIT VI



SOURCE: Ned Davis Research, Inc

Semiconductor Valuations

- Investors appear to have already discounted much of the bad news as the tech stocks have been rising in the face of all this negative economic news. Earnings expectations have weakened substantially with expected growth to be negative in 2009 from a forecast of +19.6% in early 2008. After the tech bubble in 2001, the median growth expectation bottomed out at -25.8% in late September of that year, according to Barclays Research group, at about the same time those tech stock prices bottomed. I don't expect to see this level of deterioration in growth this cycle, as the 2001 case had a very tough year-to-year comparison.
- Furthermore the S&P 500 Technology sector 2009 aggregate estimates have been revised downward to \$14.84 (as of 3/2/2009) from \$18.38 (at yearend 2008), a -20% downward revision in just two months. Despite remaining in a secular bear market, from the cyclical peak in tech (10/31/2007) the S&P 500 tech sector declined -55% to the November 20th low. Since then the tech sector is up quite nicely out performing the market by well over 1000 basis points, but well short of the average +50% cyclical bull moves we saw following the 2001 and 2002 market and tech bottoms.
- Valuation is also attractive relative to historical troughs. While the S&P 500 Tech sector index is about 20% above its lows price-to-book and price-to-sales ratios are below their 2002 trough levels. Furthermore, several valuation metrics (P/B, P/S, and P/E) are nearing median trough levels calculated since 1974.



SOURCE: Ned Davis Research, Inc

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