

# Investment Matters

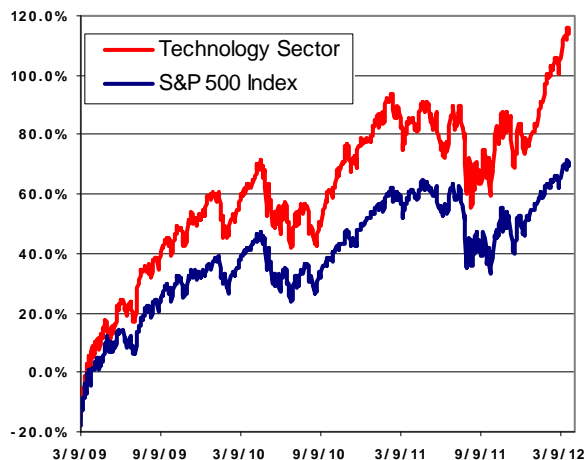
For the quarter ended March 31, 2012

## Technology Stocks Back On Top

The technology stock bust is apparently over. Beginning in March, 2000 the technology sector of the S&P 500 Index lost 82% of its value in just two years while non-tech sectors declined modestly. In the minds of investors, the late 1990's promise of a new economy dominated by technology companies went from bright-eyed hope to cruel hoax. The so-called "old economy" stocks resumed what many regarded as their rightful place in the market and technology stocks languished.

Not any more. Tech stocks are back. Not only have technology stocks outpaced the general market since the bottom of the last recession in 2009, but technology is once again the largest sector of the S&P 500 Index. At the end of the quarter, the technology sector represented 20.5% of the S&P 500 Index.

Breaking above 20% is significant. While a number of sectors have grown to more than 20% of the Index, none have stayed there for long. Energy topped 20% in 1980 and soon collapsed along with the price of oil. Staples did it in 1991 but soon fell back as values crashed. Technology did it in the late 1990's followed by the big bust. More recently



TECHNOLOGY STOCKS HAVE OUTPERFORMED THE S&P 500 INDEX SINCE THE RECESSION BOTTOM IN 2009

finance exceeded 20% during the housing boom. Its subsequent decline took the entire market down 56% and almost destroyed our financial system.

**“Technology is once again the largest sector of the stock market.”**

So, is the current bull market in technology stocks a trap for unwary investors? Probably not. Previously, every sector which reached the 20% level was also dangerously

overvalued. When the tech stock boom peaked in 2000, the sector was selling for 68 times 2001 forecasted earnings. Today, the tech sector is priced at 16.6 times next years earnings. While this is somewhat higher than the 13 PE of the general market, tech earnings are growing much faster than average. Apple, which represents one fifth of the technology sector sells at a PE ratio of less than 12 times next years earnings and is expected to grow at 20%. Like any stock it is subject to disappointment, but not likely to disaster.

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## Longevity Insurance

Only the super rich do not have to worry that they will outlive their retirement nest eggs, or at least that's the way it used to be.

More recently, a new type of annuity, a longevity annuity, makes it possible for anyone with a reasonably sized investment portfolio to guarantee that they will enjoy lifetime income.

With a typical immediate annuity, an insurance company promises to make regular income payments to you for the rest of your life in exchange for a one-time premium payment. However, because annuity payments are low in comparison with historical investment returns, few investors are willing to annuitize all their investment assets.

The difference with a longevity annuity is that payments are not started immediately but are deferred for many years. This lowers the cost enough so that a reasonable level of income can be purchased with only 10–15% of the investors assets.

A person retiring at age 65 could purchase a longevity annuity which doesn't start paying income until they turn 85. For the first twenty years of retirement they can live on the income from their remaining investment portfolio, perhaps setting a 5%

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**Insurance: continued**

plus growth annual spending rule so the money lasts the entire period. If they should pass away before reaching 85, the insurance company gets to keep their premium payment and any investment earnings it has generated. If the person lives to be 110, the insurance company must pay for 30 years.

A longevity annuity is more of an insurance policy than an investment. As with term life insurance, you pay a nonrefundable premium to cover a specific risk. With life insurance you are buying security for your dependents if you pass away. With a longevity annuity you are buying security for yourself in case you outlive your investments.

*Despite historically low bond yields, investors are pumping \$40 billion into bond funds every month.*

**Not Widely Known**

**E**conomists are buzzing about a manufacturing renaissance in the U.S., reversing a negative trend which began decades ago. New energy extracting technologies are lowering the cost of natural gas and oil in the U.S. relative to the world and rising wages in other parts of the world are making American labor competitive again.

**T**he textbook bubble is deflating. Over 2,000 colleges have adopted textbooks which are available free online or for \$25 as an e-book. Can the textbook cartel survive?

**W**ard's Auto reports that U.S. cars sold in March had a combined 24.1 miles-per-gallon rating, up from 21.5 mpg just four years ago, a perfect example of how high gasoline prices reduce demand over time.

**T**he Surgery Center of Oklahoma, a large fully accredited medial institution, publishes a list of available surgeries along with a

transparent price list. Knee Arthroscopy is \$3,740; rotator cuff repair goes for \$6,160. Only cash payments are accepted. All prices are substantially below prices paid by insured patients.

**3**-D Systems Corp. will soon sell a 3-dimensional printer for home use. The price will be about \$1,300. The printer is capable of making computer designed objects the size of a shoe. Cottage manufacturing industries may be around the corner.

**T**he Energy Information Administration reports that it took only 7.32 thousand BTUs of energy to produce each dollar of GDP in 2011. This is half the amount of energy required to produce a dollar of GDP in 1975.

**T**he same agency also reported that U.S. natural gas production reached 2.557 trillion cubic feet in January, up 11.6% from one year ago and 50% higher than 2005 production.

The natural gas glut has reduced prices to a 17 year low.

**C**hina is the third largest market for U.S. exports after Canada and Mexico. China now buys as much from the U.S. as Germany and the United Kingdom combined.

**T**here is an apparent labor shortage in manufacturing. A recent survey by Deloitte LLP found that 74% of manufacturers report that workforce shortages or skills deficiencies were keeping them from expanding operations. It was estimated that 600,000 jobs remain unfilled, mostly involving skilled workers like machinists, craft workers and technicians.

**T**he General Accounting Office estimates that there are 45 to 70 different gasoline blends in use in the U.S. , mostly due to varying environmental regulations around the country.

**The Bottom Line: 3/31/2012**

Market Indicator	Current Value	One Year Change
<b>Large company stocks</b> (S&P 500 Index)	1408	8.5%
<b>Small company stocks</b> (S&P Small Cap Index)	463	6.5%
<b>Short term interest rates</b> (3 Month T-Bill Yield)	0.1%	No change
<b>Long term interest rates</b> (10 Year T-Bond Yield)	2.2%	From 3.5%
<b>Inflation</b> (Consumer Price Index)	228.4	2.9%
<b>Energy</b> (West Texas Intermediate Crude Oil)	\$102.90bbl.	-3.6%
<b>The economy</b> (Inflation adjusted GDP)	\$15.3 trillion	1.6%

**QUOTABLE**

*"An investor who has all the answers doesn't even understand all the questions"*

Sir John Templeton

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