

Investment Perspective June 2017

Going back to the start of 2015, the tech component of the S&P 500 has produced returns that are over two times that of the S&P 500. Savvy investors are getting the best of both worlds: higher expected growth (revenue and net income) relative to other S&P 500 components and a better store of value in uncertain times (political volatility and uncertainty about global macroeconomic strength), relative to “safe haven” investments like U.S. Treasuries and gold.



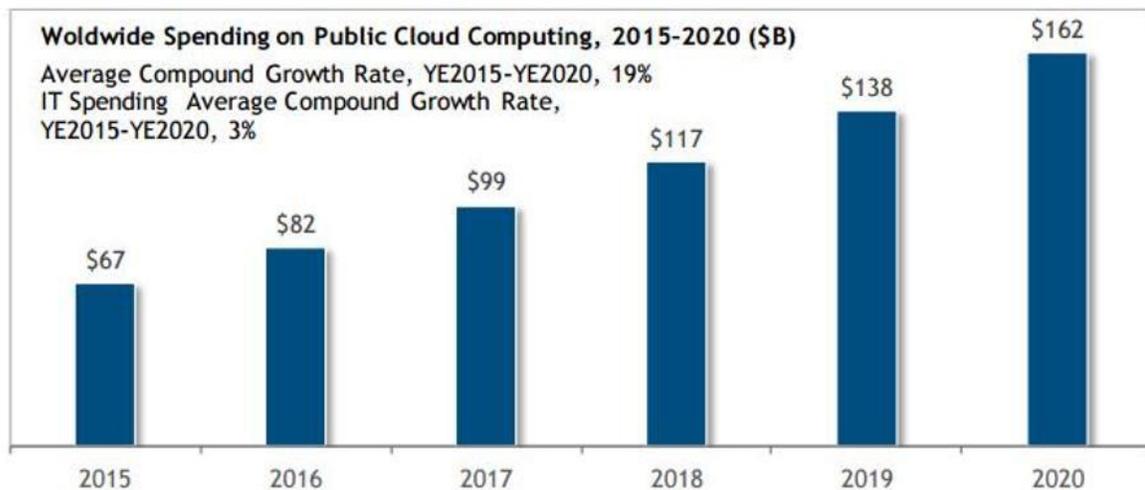
Why the higher growth rate? The shift to internet based (use as needed) access to tools and content is leading to a revolution in the way companies and households use computers and electronics.

Cloud Computing and Internet of Things (IoT)

Cloud Computing

The emergence of cloud computing has been a source of operating efficiency for many business by reducing their need for localized information technology resources and personnel. Businesses, government, municipalities, and households now have a less burdensome and more flexible option to store data, run software, and perform analytical tasks. Whereas in the past computing power was mostly housed at the local level (hard drives, local server, portable memory device – CD ROM, Flash Drive, etc.), cloud computing allows entities to outsource these services and infrastructure by relying on the internet and Cloud service providers like Amazon, Google, Microsoft, and IBM. The benefits to businesses, governments, and individuals are clear: lower overhead, scalability (pay for what you need), flexibility (access to latest software). There are a few concerns that Cloud users need to make arrangements for: reliance on internet for access to data and software --dependent on reliable internet access, security –concern that proprietary data may fall in the hands of an unwanted third party, and the financial health of the Cloud service provider (will they be around when you need access to client information and analytics).

The Rapid Growth of Cloud Computing, 2015-2020



Source: IDC, 2016

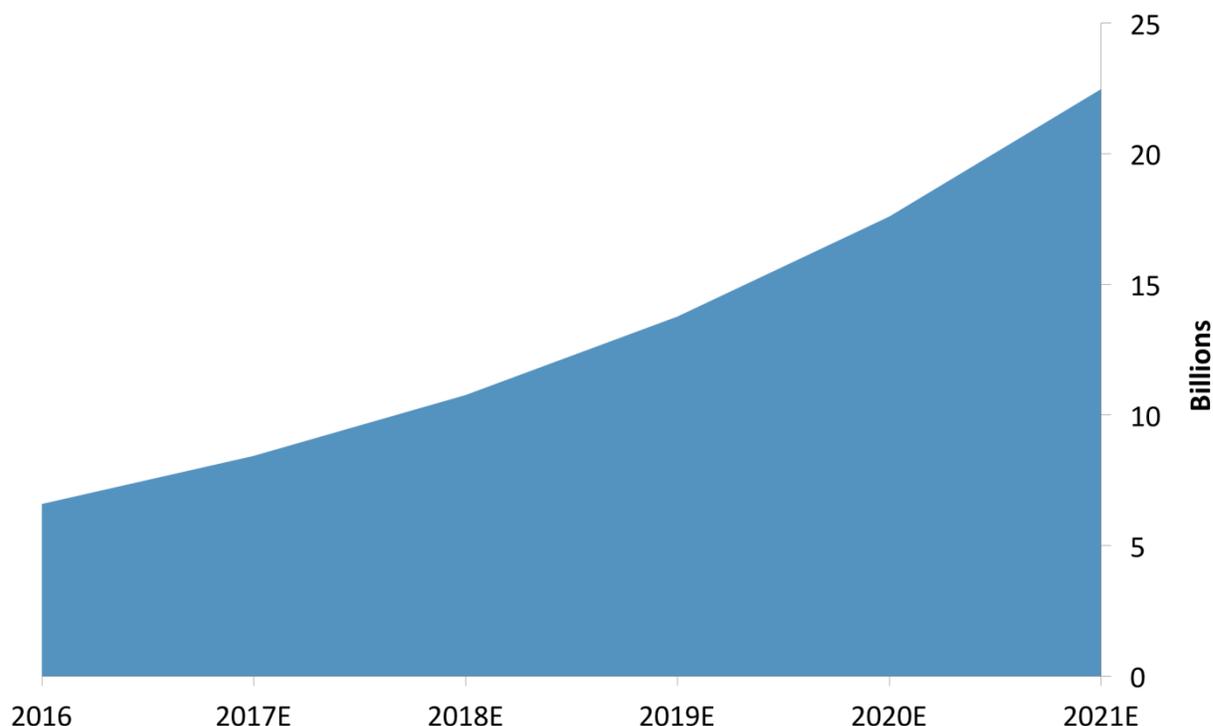
Internet of Things (IoT)

Just as Cloud computing is changing the way we use computers to carry out business and other personal everyday tasks, the IoT builds on the reliance on internet, WiFi, and Bluetooth technology to enhance productivity and customization. The premise is that everyday tools like our car (maintenance alerts), our home security system, our watch, even our coffee maker can be monitored and controlled through one dashboard (remote control) like our smartphone or tablet. The idea is that this will free up our time and allow for unique customization. The shift towards the IoT is already observable in the way we watch television, the functionality of the watch (access to email, training logs, etc.), and the functionality of our cars. On a more ambitious scale,

cities like Barcelona are already using IoT technology to improve quality of life with traffic pattern adjustments, parking (smart parking meters), and waste management (bins that monitor waste levels and optimize collection routes), among other initiatives.

FORECAST: IoT Device Installation Base

Global, 2016-2021



BI INTELLIGENCE

Source: BI Intelligence Estimates and Business Insider Global IoT Executive Survey, 2016

It is easy to see how the emergence and widespread adoption of Cloud computing and IoT is being compared to the industrial revolution. This helps explain why, in spite of concerns about the growth of the domestic economy, the quality of the job market, and the affordability of housing, the tech sector has been almost impervious to any of these concerns. Given this backdrop, it would be wise to look at pullback in the overall market as opportunities to build a quality portfolio of companies positioned to benefit from this revolution.

Cloud and IoT Dividend Paying Stocks

Below are some dividend paying stocks with exposure to rising Cloud and IoT adoption. Please note that these only represent dividend paying Cloud and IoT stocks. Many technology companies do not pay dividends as earnings are reinvested in the business. This list is not meant to reflect all companies that are in position to benefit from the rise of these technologies. Please also note that there is a suggested buying price range. In light of the current political and macroeconomic uncertainty, stock market pullbacks are likely to emerge which will provide an opportunity to buy into these companies at a discount from current prices.

	Symbol	Current Price	P/E Ratio	Dividend Yield	Buy Price Range
Internet Service Providers					
Comcast	CMCSA	\$41.80	15x	2.40%	\$33.80 - \$36.40
AT&T	T	\$38.83	19x	5.00%	\$31.70 - \$33.80
Century Link	CTL	\$25.85	25x	8.40%	\$24.90 - \$25.80
Cloud Service Providers					
Microsoft	MSFT	\$72.38	32x	2.10%	\$63.80 - \$64.80
IBM	IBM	\$152.57	12.5x	3.70%	\$129.80 - \$136.70
Hardware					
Cisco	CSCO	\$31.72	16.1x	3.40%	\$28.90 - \$30.90
Western Digital	WDC	\$89.34	N/A	2.20%	\$80.90 - \$84.90
Intel	INTC	\$36.33	15.8x	2.90%	\$33.80 - \$34.80
Qualcomm	QCOM	\$58.89	19.6x	3.70%	\$55.60 - \$57.40

*Western Digital and Qualcomm are currently held in my personal portfolio.

Ed Hernandez
Head Portfolio Manager