

## MEMBERS™ CAPITAL ADVISORS

## Tech Stocks and Growth Stocks: Outlook in a Bear Market

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## Brick houses are better

Recent history has shown that growth stocks and especially technology stocks fall hardest in bear markets. In fact, technology stocks declined 42.3%<sup>1</sup> in 2008 whereas the broader growth stock universe as measured by Russell 1000® Growth Index dropped 38.4%<sup>1</sup>. So after such a rout, do shares of technology companies offer good value today?

Looking back at the 2001-2003 crash of the technology stocks and comparing that environment to today we quickly note that the “tech bubble” popped due to excess capacity and excess inventories built during the ‘boom phase’. Comparatively, today the entire supply chain for technology firms is in much better shape. They have been nimble in their response to a decline in demand and have reduced inventory levels to manage the low-demand environment. Likewise, technology companies have been aggressive to trim costs all around, including finding creative ways to reduce fixed costs and working hard to transition many costs to a variable cost structure. In fact, Hewlett Packard has gone so far as making the company matching contributions to their employees’ 401(k) accounts a performance-based cost. Not only does this accomplish a variable cost structure around this expense, it also provides clear incentive for employees to perform at their best.

A critical sign of a company’s strength is revealed in its balance sheet. Currently technology companies in general have very strong balance sheets with large cash balances and minimal debt; we refer to companies with these characteristics as “brick houses”; i.e., they can weather a storm much better than those lacking cash and or heavily burdened with debt. Many of these companies continue to hoard cash today with intentions to maintain or even increase dividends. How are tech firms able to do this in such an environment as this? The primary reason is due to their product lines being characterized by short life spans; products become obsolete quickly as efficiencies and support platforms advance. This creates a built-in replacement cycle. Despite the slow down in demand, customers continue to spend on technology as they desire to increase efficiencies and productivity. Due to slower demand customers are postponing new projects and initiatives, but maintaining the integrity of current operations is still a clear priority.

The MEMBERS® Large Cap Growth Fund\* is overweight technology with a weighting of 34.0%<sup>1</sup> relative to that of its benchmark, the Russell 1000® Growth Index, of 30.5%<sup>1</sup> as we believe tech companies:

- are cyclical in nature and therefore have managements who understand that aspect of the business;
- have fortress-like balance sheets that appeal to investors – brick houses are always better than straw houses;
- are deflationary in nature as technological advances allow for price cuts that will likely lead to an increase in market share;
- have intrinsic reasons for growth, providing a conceptual bridge to the future for investors anticipating a recovery;
- have product lines that have their own replacement demand;
- are generating substantial free cash flow even in this depressed business environment;
- offer cash dividends that often have proven to be both sustainable and substantial.

*\*Investors should consider the investment objectives, risks, and charges and expenses of the investment company carefully before investing. Call MEMBERS Mutual Funds, toll-free, at 1-800-877-6089 or visit [www.membersfunds.com](http://www.membersfunds.com) for a copy of the prospectus, which contains this and other information about the funds. Read it carefully before investing.*

Past performance does not guarantee and is not indicative of future results. Indexes are unmanaged and do not reflect the payment of advisory fees and other expenses. If such fees were taken into account, the performance would be lower. Investors cannot invest directly in an index. The holdings of the securities in the portfolio may differ significantly from the securities that comprise the relevant index. As a result, the composition and characteristics (e.g., volatility) of the relevant index may differ materially from that of the securities in the portfolio. Products and services managed by MEMBERS™ Capital Advisors, Inc. are offered through CUNA Brokerage Services, Inc., member FINRA/SIPC, and are not federally insured, involve investment risk and may lose value, and are not obligations of or guaranteed by the financial institution. <sup>1</sup>Source: FactSet