

Erne, Brendan & Teufel, Andrew – Fisher Investments on Technology

John Wiley & Sons, 2010, [Equity Investing] Grade ★★★★★

The ever-changing technology sector is tricky to cover in a text with long duration like a book. The authors, at the time employees at California based Fisher Investments, handle the reasonably task well. Today's trendy topics such as Social, Big Data and Mobile aren't covered as they would be today but the trends of so-called Software As a Service and cloud-based services are commendably described. The book is one out of ten sector investment primers published as "Fisher Investments on..." The series also includes a book on emerging markets and they all use the same structure and partly also the same texts.

The book has three parts where the first gives an introduction and a historical background to the technology sector plus it discusses the drivers of tech companies' profits and their shares. The second part digs into more details and describes the segments of the MSCI World technology index. The last part that is more or less the same for all the books in the series covers their so-called Top Down Method of building a portfolio. The method is to underweight or overweight regions, countries, sectors, investment characteristics and individual securities according to the investor's view of the business cycle, company profits etc. in relation to the consensus view of the same. I would argue that this is a tricky method to use for investors but I will not dwell on the topic.

I rather like the quite philosophical description of technology as "a means to fulfil a purpose", "capturing natural phenomena and putting them to use". Technology is an efficiency tool allowing the user to do something faster, simpler, cheaper, on less space, more connected, more structured etc. Even though it's not

entirely obvious why different parts of the text have ended up in part one or two, the book further provides a good basic description of semiconductors and of hardware products such as PCs and servers. I also enjoyed revisiting the very early history of the Internet including the ARPANET, the development of TCP/IP and the World Wide Web. The boom-bust-character of the sector with the short product life cycles is further described in a good way.

The main shortfall of the book is its huge sub sector bias. Broadly the technology sector includes 1) Internet Software and Services, 2) IT Services, 3) Software, 4) Communications Equipment, 5) Computers and Peripherals plus 6) Semiconductors and Semiconductor Equipment. Despite constituting perhaps 30 per cent of the market capitalization of the sector, the last two (and especially semiconductors) get 75 of the allocated space. IT-services is covered on a measly three half pages plus a few bullets in a checklist.

Even software, that I would argue is the most important part of the technology sector as it's the part that has captured an increasing part of the sector's value add, gets relatively little coverage. I would also argue that the description of the semiconductor sector is somewhat US-centric and that for example the crucial role of ASML within lithography definitely deserves more recognition. In my view these gaps leave the purpose of the book unfulfilled.

The first two thirds of Fisher Investments on Technology is a perfectly okay primer of half the technology sector and the last third is a replay of an investment strategy that has worked great for superstar investor Ken Fisher but that I personally wouldn't use.

Mats Larsson, May 29, 2014