03 05 2009 Quale settore privilegiare in caso di rialzo. I Tecnologici naturalmente

The Dow Jones Industrial Average has bounced from its early March lows, but it remains down for the year. The past few weeks have shown the major market measures bickering about whether or not they should head higher or once again retreat.

That ambivalence is absent in the technology sector. The tech-rich Nasdaq Composite has quietly continued to rise even as broader market measures have stagnated. The Nasdaq is up eight straight weeks and now trades at its highest level since November.

So far this year, the Nasdaq is up 9% while the Dow Jones U.S. Technology Index is up about 18%, led by strong gains in nearly every subsector.

Betting Tech to Lead a Recovery

While there are many questions about the economic situation, analysts believe that technology shares will play a leading role in an eventual recovery.

Also, technology companies often have very little debt, which is a good thing in these financially troubled times. And, lastly, technology companies play a key role in making other companies more efficient. These are all reasons why investors should consider a bit more exposure to the tech sector in their portfolios.

To be certain, technology shares are still well off their late-2007 highs. Most technology stocks also are far below record levels reached at the height of the Internet boom in the late 1990s. Even after a sustained run since late last year, that means that technology shares aren't terribly expensive. Many of the top companies in the sector still sport relatively modest valuations.

Microsoft, for instance, trades with a price/earning ratio of 10.8. International Business Machines has a P/E of 9. Other bellwethers aren't nearly as cheap, but they're not wildly overvalued either. Intel sports a P/E of 19, Oracle a P/E of 17 and Cisco Systems a P/E of 14. By comparison, the average P/E of the 30 companies that make up the Dow is about 27, and the components of the Standard & Poor's 500-stock index average 13.

Underpinning the recent gains, bellwether companies are starting to sound a tad more optimistic. Intel, the chip maker, sees personal-computer sales bottoming out. Cisco has been using its cash hoard to aggressively expand into new markets. IBM's shares have soared 30% since late 2008, and it recently affirmed its guidance for the year, which investors viewed positively.

Animal spirits are also alive, with Oracle recently announcing plans to acquire Sun Microsystems for $7.4 billion. Sun had previously flirted with a sale to IBM. Oracle's shares have also been on a tear, rising more than 30% since early March.

Technology firms used to be considered "growth" stocks, thereby mostly immune to the vagaries of the economic cycle. Recent history, however, has made it clear that the sector is more like modern-day manufacturers, geared to the economy.

That means that this sector should start to outperform as the recession abates. Indeed, the recent performance in technology shares may be one reason that economists have become a bit less glum in recent weeks.

The government estimated last week that the gross domestic product fell at an annual rate of 6.1% in the first quarter. Now, some economists have declared that the first quarter will mark the end of the recession. That may be optimistic, but it underscores the reality that the recession will indeed end at some point.

But given expectations of a slow recovery, companies will focus more intently on wringing efficiencies out of their businesses, rather than quickly expanding and hiring new people.

That will mean an outsized role for technology as companies spend money to stretch the productivity of the people they already have on staff. This is a trend that has been in place for some time and a sluggish recovery would amplify this notion.

Brian Belski, a market strategist at Oppenheimer, recently argued that investors should overweight technology (along with health care and telecommunications) because of the sector's strong financial position and its prospects for growth.

Higher Earnings Expected

Ed Yardeni, head of Yardeni Research, notes that earnings expectations for technology companies have started to improve. In April, forward earnings estimates for technology companies in the S&P 500 rose for the second straight month. This upgrade comes as the overall earnings expectations for S&P 500 companies continue to decline.

Despite growing optimism about technology shares, it's important to remember that this is a volatile sector. If the economic situation worsens, corporate capital expenditures would surely suffer. And that would disproportionately hurt the technology sector.

Indeed, given the still fragile economic situation, many economists have raised questions about the prospects for meaningful corporate capital spending.

Given the still uncertain environment, that would argue for a modest overweighting in technology shares in your stock portfolio. It would be a mistake to abandon diversification to completely focus on technology.