

## Boenning Morning Comment

*This report is prepared for us by Tower Bridge Advisors*

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Stocks rose yesterday climbing into positive territory for the year. Surprisingly good retail sales for February announced by chain stores yesterday added a bit of fuel to the market's advance as did a decline in weekly jobless claims. Pending home sales and factory orders were more mixed. This morning the February employment report will be released but weather disruptions and the addition of new census workers will distort the numbers. It is unlikely that anyone will be able to reach any new and distinct conclusions from today's numbers.

One sector of the economy doing very well is the tech sector. A few months ago, demand for tech products was driven by consumer demand, notably for notebook computers and smartphones. But in recent weeks and months demand seems to have spread broadly along all parts of the tech universe. It isn't all that hard to see why superficially. Corporations are flush with cash and the last big tech refresh cycle was almost a decade ago during the Y2K frenzy.

But I suspect there is more behind the shift. Much more. Before moving ahead I want to pause and look backwards first. In every big seismic segment of the industrial revolution there have been two major stages. The first I will call the pioneering stage where the technology was invented and early adaptors began to learn the power of the technology. For cars, it was the late 1890s and the first decade of the last century. For railroads, it was the second quarter of the 1800s. For planes, the first quarter of the 1900s. For TV, it was the 30's and 40's. For computers, it was the late 40s and the 1950s. In these periods, there were many new entrants. Hundreds, even thousands of companies tried to climb on the bandwagon understanding on one hand the potential but not quite having all the pieces together to reach the Holy Grail. Inevitably, within the first decade or so, there is a big shakeout. But then, with the knowledge learned, someone or someones come along and lead the charge forward. This is the lucrative stage when everyone and every entity embraces the new technology. These leaders included GM and Ford for autos, IBM for computers, RCA and Zenith for TVs, and Pan Am for airlines. In PCs it was Compaq, Dell and HP. Names like Peerless, Muntz, Commodore and Univac quickly faded either because of weak management or lack of capital.

In the 1990s the Internet was born. With low barriers to entry and virtually free equity capital available, everyone jumped on and created a site. But the value equation wasn't there either because of faulty execution, or the inability to be value added. But gradually, that has changed. Names like Amazon and Google emerged. Later came Facebook and Twitter. The latter are still unproven but have mammoth potential if they can polish their economic models.

Another characteristic of technological change is the legacy companies simply cannot adopt well. Sure, they see what's coming. They simply don't know how to react. Thus, as digital photography replaced conventional photography, Kodak faded away. When PCs replaced minicomputers, Digital Equipment was forced to sell out. New media is forcing newspapers out of business. Magazines like Gourmet have folded. Rumors say Newsweek isn't far behind.

What emerges in the end are giant enterprises that change the whole fabric of our lives. Think of the impact names like Microsoft, Ford, Pan Am, Union Pacific, Intel, and Cisco have had on our lives. More recently look at Apple and Google just to name two. All this doesn't mean there won't be media for us to read and watch. It will just be

different. Out with Newsweek and in with Politico. Out with Blockbuster and in with Netflix. Out with desktop PCs and in with iPhones. Remember Excite, Lycos, and Alta Vista? Now we have Google.

When my generation came home, we turned on TV to get the 6PM news. When my kids come home, they already know the news. TV simply isn't a news source for them. The Internet is. They don't have the time or patience to shop for necessities. They buy on the Internet and have everything delivered. They watch TV on their schedule, not the networks. They "talk" via Twitter, Facebook and text messaging, not by phone. This sea of change will do two things. Similar changes are occurring in business. Look how something as simple as the phone has evolved. Just think how e-mail has changed our lives as we move toward even faster modes of electronic distribution. These changes will create monumental new companies and it will fill graveyards with companies that are household names to my generation. We used to talk about the past in terms of buggy whips and ice boxes. They will talk of the past in acronyms like NBC and CBS.

Some companies survive. Ford, IBM and Hewlett Packard are still very much here. So are the railroads.

10-20 years after the pioneers lay the groundwork, the golden years occur. For autos, it was 1915-1930. For the airlines, it was the 1930s all the way into the 1950s (World War II got in the way). For PCs it was the 1990s. For railroads, it was after the Civil War.

My best guess is that the next decade will be the true golden age for the Internet. It will evolve from a curiosity we learn to use to the very core of our personal and business lives. It will be a time when new media and retail giants will emerge, when smartphones and related hand held devices will become ubiquitous and when new devices emerge that will improve the efficiency of everything we do. For investors, it means corporations will have to spend billions and billions of dollars to transform themselves from one world to the other. Those that don't will be left behind. I am talking much more than consumer products and services. Every company along every part of the food chain worldwide will have to transform how it communicates, how it buys and sells, how it services, and how it delivers. Those that don't will fail. The beneficiaries will be the survivors and the suppliers. A few are already evident. A few haven't been born yet. It will be exciting times.

In the early hours before the release of the employment data it appears stocks are headed for a higher opening.

No significant birthdays of note today but tomorrow former Fed Chief Alan Greenspan turns 84.

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Additional information is available upon request.

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