

Investing in Science and Technology Stocks

Companies focused on science and technology are forward-thinking, developing innovations that transform today's products and processes or create entirely new ones. As their leading-edge products and services gain acceptance in the marketplace, these companies often enjoy exceptional growth and rapid evolution. This growth is frequently reflected in rising stock prices, offering investors substantial opportunities for superior long-term capital appreciation, although with substantial risk.

Before diving into high-tech investing, however, you'll need some knowledge of both its potential and its risks. You will also need to understand how you can use such stocks in a diversified portfolio to help you meet your financial goals.

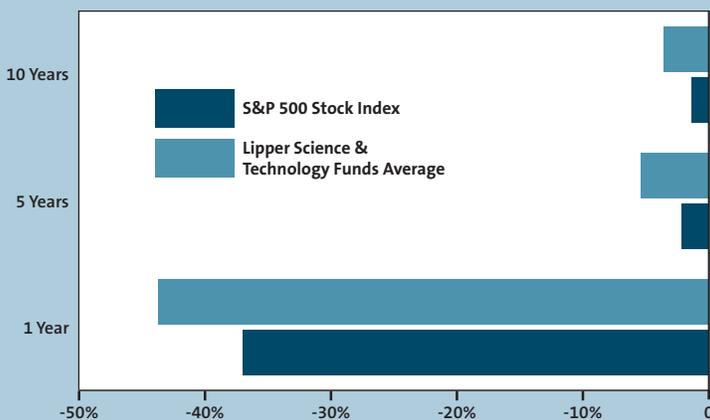
The ultimate growth stocks...

Sci-tech stocks generally are considered to be very aggressive growth stocks and, as such, carry many of the characteristics of growth stocks:

- *Rapidly Rising Earnings*—Their earnings are expected to rise faster than inflation and the overall economy. Since stock prices usually track earnings, these companies should provide long-term growth of capital. True growth companies should see increased earnings, even during economic slowdowns, because demand for their products and services is expected to grow steadily, insulating them from economic highs and lows.
- *High Price/Earnings (P/E)*—Normally they have higher P/E valuations than stocks in general, as represented by the Standard & Poor's 500 Stock Index. (P/E, which measures how much investors are willing to pay for every dollar a company earns, is found by dividing the company's stock price by its most recent or projected 12-month earnings per share.) Investors are willing to pay more for rapidly growing companies because they expect the steadily rising earnings to translate into higher stock prices.

Chart I: Sci-Tech Versus the Market

Lipper Science & Technology Funds Average and the S&P 500 Stock Index
Annualized Returns for Periods Ended 12/31/08



This chart is shown for illustrative purposes only and is not intended to represent the performance of any specific security. *Past performance cannot guarantee future results.* The S&P 500 Stock Index tracks the stocks of 500 U.S. companies. It is not possible to invest directly in an index.



- **Low Dividends**—High-growth stocks often pay little or no dividends because earnings typically are reinvested in the company to support research and development or new growth opportunities.

...With considerable risks

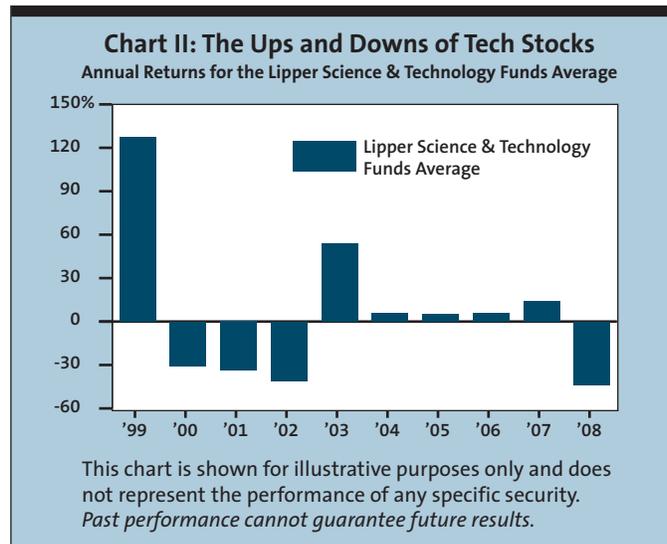
As they are considerably more aggressive than other growth stocks, the high potential of science and technology stocks also comes with significant risks:

- **Volatility**—Stocks of companies with high P/E's and low dividends tend to be extremely volatile. Since investors pay relatively high prices on the expectation that growth stocks will rapidly increase their earnings, these companies are often punished when they miss their targets, and they lack the dividend yield that can cushion stock prices when the market drops. But they can be handsomely rewarded by investors when they meet or exceed earnings targets.

- **Size and Liquidity**—Many growth companies are small- and mid-capitalization stocks (their total stock market value is approximately \$5 billion or less) and can be particularly volatile because they are less liquid than large-cap stocks. (Liquidity is a measure of the availability of securities for purchase or sale in the market.) The lower the liquidity, the greater the effect on price—up or down—when securities are traded. Therefore, the stocks of smaller growth companies are more vulnerable to abrupt market declines than larger ones.

- **Obsolescence**—Since they typically are concentrated in a rapidly changing field, sci-tech products or services may become obsolete quickly or may not be marketed successfully.

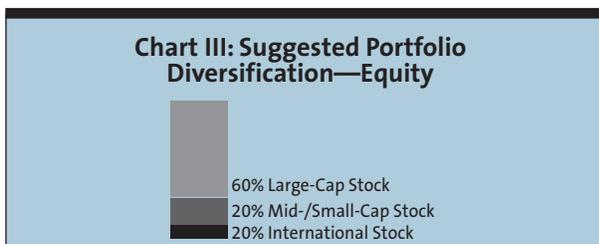
The bright prospects for technology can lead to periods of investor euphoria for these stocks, driving their P/E's and other valuation measures higher than growth stocks in general and subjecting their share prices to potentially larger declines if investors become dismayed with their performance. Historically, portfolios of sci-tech stocks have been more volatile than broadly diversified portfolios, creating a bumpy ride for investors.



Fitting sci-tech stocks into your portfolio

Before making any investment decision, you need to evaluate your overall financial picture and long-term objectives. To build a portfolio that works for you, we suggest you identify your goals and time horizon and then determine an appropriate asset allocation.

If you are a disciplined long-term investor and are willing to accept the risks, sci-tech stocks may be a good choice for the aggressive portion of your equity portfolio. As shown in Chart III for example, of the equity portion of a well-diversified portfolio, up to 20% might be in mid-cap stocks; small-cap stocks; or other diversifying groups, which may include science and technology stocks. (Note that the amount of your portfolio that you should have in equities will vary depending on your time horizon; visit troweprice.com for more information.)



If your portfolio includes individual stocks, we suggest you have no more than 5% to 10% of your portfolio in a specific sci-tech related company. Keep in mind that you may already have exposure to a particular company through a more general fund.

The best way to reduce the volatility of sci-tech stocks is through diversification. Diversification cannot assure a profit or protect against loss in a declining market. However, diversification can help reduce everyday volatility because your portfolio is spread among investments with different risk and return characteristics. One of the easiest ways to diversify is to purchase shares of a sci-tech mutual fund, which buys stocks of many different firms. The greater the number and variety of holdings within the portfolio, the smaller the impact on the fund's share price if a particular holding performs badly.

Sci-tech funds can vary widely in focus. Some may be heavily concentrated in one or two industries while others may cast a wider net. More narrowly focused funds may suffer more volatility because they lack the variety of unrelated holdings that can potentially offset poor performance in any one sector.

Stocks in this sector can be a potent addition to a long-term portfolio.

Insights reports provide background information on many aspects of investing. *Call 1-800-638-5660 to request a prospectus, which includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.* T. Rowe Price Investment Services, Inc., Distributor.