Warren Buffett coined the term “economic moat” to explain a strategy he uses when looking for investment opportunities. Buffett believes that the width of the economic moat (i.e., its competitive advantage) is a characteristic that distinguishes a great company from a good one.

Morningstar, an independent research provider, has adopted this philosophy, classifying companies as either wide moat, narrow moat or neither. Wide-moat stocks have positive characteristics such as a lack of substitutes, cost advantages and brand power, and these stocks tend to outperform the overall market. In fact, the Morningstar Wide Moat Index has outperformed the S&P 500 an average of 6% per year from 2002 to 2015.1

Same Wide Moat, Different Life Cycles
While we don’t believe that all wide-moat stocks make compelling investments, Edward Jones has a Buy rating on several in the technology sector. We’ve divided these investment opportunities into two categories: “Early Life Cycle” and “Mature Life Cycle.”

Looking Along the Life Cycle

Please see the full company research reports for important disclosures on the companies mentioned in this report. You can also contact a local Edward Jones advisor, or write the Research Department, Edward Jones, 12555 Manchester Road, St. Louis, MO 63131, to receive a complete company opinion.
Early Life Cycle

Some companies early in their life cycle have strong potential to outgrow expectations over the long run. While some technologies have matured over the last decade, innovation continues at a rapid pace. Increasingly digital lifestyles, connectivity in new places and cloud computing should spur growth in the coming years.

Buy-rated technology stocks with wide-moat characteristics that are expected to produce long-term, above-market earnings growth include Alphabet (GOOGL), Amazon (AMZN) and Facebook (FB). These early life cycle companies can experience price shifts that are average to above average.

<table>
<thead>
<tr>
<th>Company and Symbol</th>
<th>Subsector</th>
<th>Wide Moat Commentary</th>
<th>Investment Category</th>
<th>Price Movement</th>
<th>Long-term EPS Growth</th>
<th>Price as of Jan. 9, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alphabet (GOOGL)</td>
<td>Internet</td>
<td>Alphabet’s technical expertise in search algorithms and access to data is valuable to advertisers. Alphabet’s Google brand is also a significant asset that has become synonymous with search.</td>
<td>Growth</td>
<td>Above Average</td>
<td>13%</td>
<td>$809.28</td>
</tr>
<tr>
<td>Amazon (AMZN)</td>
<td>Internet</td>
<td>Amazon’s fulfillment and distribution network costs less than having a physical retail presence, allowing Amazon to price below brick-and-mortar peers.</td>
<td>Growth</td>
<td>Above Average</td>
<td>40%</td>
<td>$796.60</td>
</tr>
<tr>
<td>Facebook (FB)</td>
<td>Internet</td>
<td>Facebook’s control of its user data allows the company to build a rich database but only share the data with business partners.</td>
<td>Growth</td>
<td>Above Average</td>
<td>25%</td>
<td>$124.96</td>
</tr>
</tbody>
</table>

Mature Life Cycle

Some companies in later life cycles are well-positioned to pay large dividends and fund investments in new products or markets. While investors haven’t historically looked to technology for income, maturing technology companies with a strong market position are offering relevant and growing dividends. Buy-rated technology stocks with dividend yields above the market and wide-moat characteristics include Analog Devices (ADI), Microsoft (MSFT) and Visa (V). These mature life cycle companies can have below average to average price shifts.

<table>
<thead>
<tr>
<th>Company and Symbol</th>
<th>Subsector</th>
<th>Wide Moat Commentary</th>
<th>Investment Category</th>
<th>Price Movement</th>
<th>Long-term Dividend Growth</th>
<th>Price as of Jan. 9, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analog Devices (ADI)</td>
<td>Semis</td>
<td>ADI’s advantages include the strength of the firm’s proprietary chip designs, as well as switching costs that make it difficult to swap out analog chips for competing offerings.</td>
<td>Growth &amp; Income</td>
<td>Average</td>
<td>8%</td>
<td>$71.97</td>
</tr>
<tr>
<td>Microsoft (MSFT)</td>
<td>Software &amp; Services</td>
<td>Microsoft’s moat comes from the Windows and Office software suites, and the Windows Server, database and cloud businesses – all of which have large market share, high switching costs and network effects.</td>
<td>Growth &amp; Income</td>
<td>Below Average</td>
<td>8%</td>
<td>$62.82</td>
</tr>
<tr>
<td>Visa (V)</td>
<td>Software &amp; Services</td>
<td>Visa’s large merchant network continues to expand as more customers adopt Visa-branded cards.</td>
<td>Growth &amp; Income</td>
<td>Average</td>
<td>12%</td>
<td>$81.68</td>
</tr>
</tbody>
</table>
Investment Risks
The technology sector is subject to a number of risks, including:

• Economic weakness that could lead to a reduction or delay in IT spending
• A strengthening U.S. dollar, which could make technology exports less attractive
• Intense competition and pressure on pricing and profitability

Please see our research reports on individual companies for more information on the benefits, valuation and risks of investing in these stocks.

How We Value and Recommend Stocks
We believe that, despite recent stock market performance, many technology stocks are undervalued and don’t fully reflect a strong long-term growth outlook for IT spending relative to the overall economy. When valuing technology stocks, we use a combination of valuation methodologies, including price-to-earnings ratios (P/E) and discounted cash flow (DCF) analysis.

Important Disclosures
Past performance does not guarantee future results. Investing in equities involves risks. The value of your shares will fluctuate and you may lose principal.

Diversification does not guarantee a profit or protect against loss. Dividends can be increased, decreased or eliminated at any point without notice.

Analyst Certification
I certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers; and no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report. Josh Olson, CFA.

1 The Morningstar Wide Moat Index is constructed using the 20 wide-moat stocks representing the best value as determined by the ratio of Morningstar’s estimate of fair value to the stock price. The Wide Moat Index and the S&P 500 are unmanaged and are not available for direct investment.

2 Price Movement: Above Average: This stock will likely move up and down to a greater degree than the average stock in the S&P 500 Index. These companies are often growing faster than the average company and/or are in industries that are more sensitive to the economy. Average: This stock will likely move up and down to a similar degree than the average stock in the S&P 500 Index. Below Average: This stock will likely move up and down to a lesser degree than the average stock in the S&P 500 Index. These companies are often more mature, growing slower than the average company and/or are in industries that are less sensitive to the economy.

Ideas for Investors: A Balanced Approach
Technology is an important part of a diversified portfolio because it tends to perform well during good economic times. We recommend you consider allocating 19% of your equity holdings to technology stocks as part of a balanced approach. Consider including stocks from the following subsectors:

• Software and Services
• Semiconductors
• Internet
• Hardware

We recommend starting with the Software and Services subsector because of its earnings consistency and stock price stability compared to those of other technology segments. Then further diversify to the other three subsectors because industry performance is likely to vary.