Tech stocks soaring again, but with stronger wings this time

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(AP)—Whenever you hear, "this time is different," the wise move is usually to ignore it.

But when it comes to technology stocks, which are flying at levels unseen since the dot-com boom was about to go bust, mutual-fund managers are insisting that this time really is different. And they're largely right.

The Nasdaq composite index is trading near its record level set in 2000, but the lofty level is better supported this time. Tech companies are more profitable, and they're paying dividends. Analysts are judging them based on how much cash they generate rather than how many eyeballs they attract on the Internet. And investors are now only mildly interested in tech funds, instead of clamoring for them.

That means fund managers don't expect a repeat of what happened the last time the Nasdaq was this high, when the index went on to plunge nearly 80 percent in less than three years. And strategists along Wall Street, from Goldman Sachs to Deutsche Bank, say technology remains one of the more attractive sectors of the market.

To be sure, warning signs are flashing that the overall stock market may be too expensive. The Standard & Poor's 500 index is trading at close to its highest level in a decade relative to its earnings. And particularly high valuations for pockets of the tech sector are making bargain-hunting investors wince, such as the hot social-media and big-data arenas. But fund managers say big, well-established tech stocks still look ready to deliver more gains.

Consider Paul Meeks, who may have more reason than anyone to steer clear. In 2000 he was running the Merrill Lynch Internet Strategies fund, which launched the same month that the Nasdaq peaked. The fund started with more than $1 billion in assets but lasted less than two years before it merged with another fund as the dot-com bubble deflated.

"I learned from the lashes on my back, from making mistakes," Meeks says.

He's now portfolio manager of the Sextant Growth fund, which can invest in stocks from any sector, not just Internet-related companies, and can sell stocks and move into cash if things look too expensive. But Meeks still keeps a big chunk of his fund in technology stocks, about 25 percent at the end of last year. Some of his biggest holdings include Apple and Facebook. The fund ranked in the top 17 percent of its category in 2014, Meeks' first full year at the helm.

Among the reasons managers say tech is much better positioned now than in 2000:

— PROFITS ARE BIGGER.

Tech companies slashed costs to improve profitability after the dot-com bubble burst. "Tech spent the better part of the last decade in its own private recession," says Josh Spencer, portfolio manager of the T. Rowe Price Global Technology fund. "Tech frankly kind of grew up while nobody was looking at it." The sector is reaping the benefits. Tech companies kept about 18 cents of every $1 in revenue as operating profit last year, more than any other sector and nearly double the average for the S&P 500.

— VALUATIONS ARE BETTER.

The price of a stock generally depends on how much profit a company generates and how much investors will pay for it. Because tech companies are earning much more than in 2000, their price-earnings ratios look much more reasonable. Cisco Systems, for example, trades at 18 times its earnings per share over the last 12 months, versus 270 times in March 2000. As a group, technology stocks are among the least expensive in the market. Only the telecom and financial sectors have lower prices relative to their expected earnings.

— DIVIDENDS EXIST.

In 2000 dividends were seen as a sign of weakness. Investors wanted all available cash to fund more growth. Perceptions have changed. Technology is now the biggest dividend payer of the 10 sectors that make up the S&P 500 and has a yield of 1.5 percent.

— INVESTORS ARE MORE SKEPTICAL.

In 2000 investors scrambled into tech stock funds, and the demand pushed valuations ever higher. Investors are now more circumspect. They put a net $1.8 billion into tech mutual funds and exchange-traded funds over the last year, according to Morningstar. That's less than went into such niche categories as global real estate or gold mining stocks.

Of course, the growth potential that technology stocks offer also comes with big price swings. New technologies are constantly making older ones obsolete, leading to more volatility.

During the dot-com bubble, people were too exposed to something that should have been a sideline to the portfolio rather than the core, says Meeks, who says he too lost money when the Merrill Lynch Internet

Strategies fund fell.

That's why managers suggest keeping tech stocks as only a portion of a diversified portfolio, not as its centerpiece.

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