By Nick Olivari

NEW YORK, Feb 25 (Reuters) - Technology stocks look tempting to many investors because they have outperformed the broader stock market as it slumps under the weight of war worries and economic malaise, but money managers warned on Tuesday that a sustained rally was not a sure bet.

If ever there was a case for "caveat emptor" -- the buy side of the stock market says it's now.

After three years of declines and 73 percent drop in the tech-heavy Nasdaq Composite index<.IXIC>, "there is much more value now than there was," said Henry Asher, a money manager with the Northstar Group. But "the business reality is that the rebound in (corporate) spending is not there."

That perceived value has prompted money to flow into technology stocks in recent weeks, with some 20 of the top 25 performing stocks in the Standard & Poor's 500 index<.SPX> being technology related.

Network equipment maker Juniper Networks Inc. <JNPR.O> has gained 32 percent; Internet media company Yahoo Inc. <YHOO.O> is up 20.3 percent; an computer security and services provider Symantec Corp. <SYMC.O> has jump 18 percent.

The Nasdaq Composite, with its 2.6 percent decline in 2003, is outperforming both the benchmark S&P 500, down 6.4 percent, and the Dow Jones industrial average <.DJI>, down 6.9 percent. But money managers are still urging restraint.

VULNERABLE

"The sector was extremely beaten up and (now is) off the lows. There has been quite a move in the sector," said Timothy Ghriskey, portfolio manager with Ghriskey Capital Partners LLC, which caters to wealthy individuals. "But that makes the sector vulnerable."

Ghriskey noted the extensive restructuring as technology companies shut down product lines and slashed costs. But he said that although "we are now seeing that pay off in some companies, the world should not again fall in love with tech."

Ghriskey said he sees upside in technology when corporations resume spending on new computers, routers and servers. But even then, he said, tech is not likely to lead the rally.

Until a few weeks ago, Ghriskey said he was overweight technology in most portfolios. But he said he has moved to a 7 percent weight, down from 20 percent. The 79 technology-related stocks in the S&P 500 comprise 15 percent of the index by market capitalization, according to Thomson First Call.

Cummins Catherwood, a portfolio manager with Philadelphia-based Rutherford, Brown & Catherwood -- which oversees $750 million.

The consensus earnings growth estimate for the technology component of the S&P 500 is 30 percent, compared with just 12.5 percent for the broader index.

While tech stock prices are far from the lofty levels of March 2000 when the Nasdaq peaked, investors note they are still trading far above their expectations for earnings.

On a price-to-earnings basis, the Nasdaq 100 index<.NDX>, which includes the 100 biggest non-financial stocks on the Nasdaq, trades at 28 times the expectation for 2003 earnings. The S&P 500 trades at 15.6 times 2003 earnings.

INSIDER BUYING

Still, some market watchers see positive signs, noting insider buying in technology companies across the board.

In recent months, two insiders at data storage company Storage Technology Corp.<STK.N>, Mark Roellig and Angel Garcia have increased their holdings by 40 percent, according to Mike Painchaud, director of research at Seattle-based Market Profile Theorems, Inc., which monitors insider transactions.

"The worst mistake is to believe that something will happen today or tomorrow" after an insider buys," said Painchaud. "But these people are buying with a long-term horizon in time and this is throughout the technology sector."

Other companies on Painchard's radar screen include McData Corp.<MCDT.O> where five insiders -- including Chief Financial Officer Ernest Sampias and four vice presidents -- have been buying shares in the high-end computer storage networking company.

Cirrus Logic Inc.<CRUS.O> was another pick, with Chief Executive David French increasing his holdings in the maker of semiconductors by 10 percent while Craig Ensley, vice president, increased his holdings by 20 percent.

((Reporting by Nick Olivari, editing by David Gregorio; Reuters Messaging: nick.olivari.reuters.com@reuters.net, 646 223-6151)) . Tuesday, 25 February 2003 13:01:13

RTRS [nN2581025] {C}

ENDS