

Investment Themes: More Disruptions to Come

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Jeff Bezos, CEO and Founder of Amazon

This quote beautifully exemplifies the extraordinary disruptions that have occurred in Industries for the past twenty years and is [projected to accelerate](#) in the coming decades. Some industries such as the newspaper business are a shell of their former selves after the emergence and broad adoption of the Internet. Telecommunications and Media is currently undergoing its business transformation with the emergence of direct-to-consumer business model (Disney Plus, Netflix) and the rapid pace of cord cutting. Healthcare and Auto Industries disruptions are looming in the horizon. Big data and technology promises to transform how healthcare has traditionally been delivered. Driverless and electric vehicles may reshape the stodgy Energy and Auto Industries.



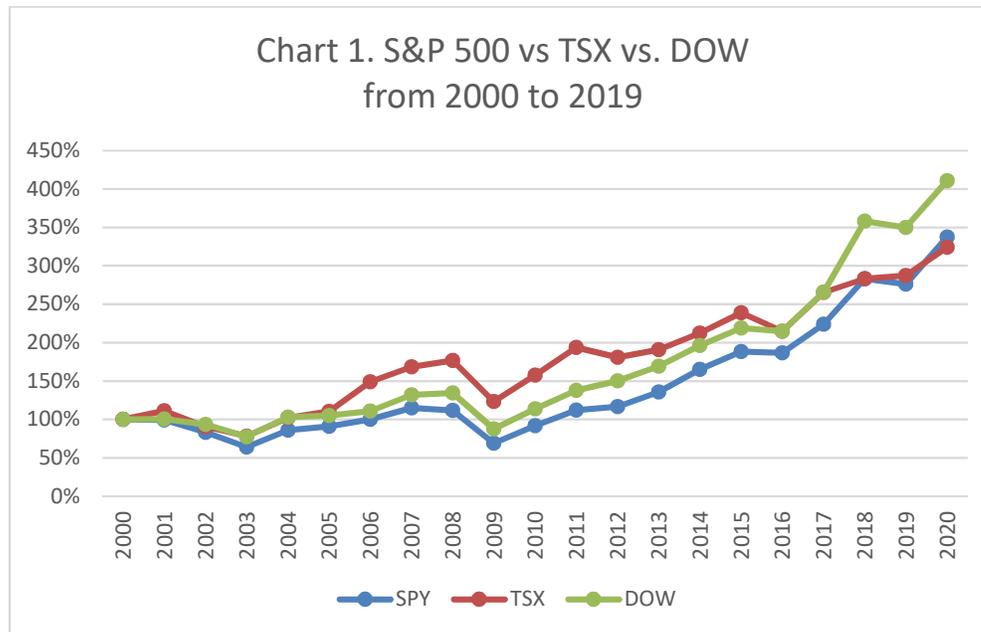
At the beginning of a new decade, it's an appropriate time to reflect on some of the major themes that shaped the investment markets in the past. Such insight may offer clues on what may impact the future of investments: secular tailwinds that will drive up future cash flows, create competitive advantages and boost shareholder value. I have selected 10 themes that may substantially impact investment returns or create investment opportunities for the next decade.

You will find that my 2020 predictions on investment themes are derivatives of themes that affected the market in the past. Undoubtedly, something extraordinary—a so-called '[Black Swan Event](#)'-- may develop that is below or even off my radar. It will be the Osler Funds portfolio manager and analysts job as investment professionals to keep on top of investment trends. (We will keep our readers and investors updated with future blogs and commentaries). As you may know, we are value investors first and foremost. We try to find companies that trade below intrinsic value. One of the concerns that individual investors may have about value investing is that value investors miss out on the growth stocks. It is true that we are unlikely to invest in start-ups; however, our theme-based screening does pick up and forecast investment trends. We want to find growth-oriented companies at value investing prices, essentially GARP (growth at a reasonable price) or fallen angels investment strategies. We strive to protect our downside, but will keep on the lookout for the next [FAANG](#) type events.

Reflections: Hindsight is 2020

Over the past twenty years we went through two significant market corrections. The first, the dot.com bubble, occurred in 2000 and lasted till 2002. According to [LA Times](#), stocks had lost \$5 trillion in market capitalization from their peak. The [Nasdaq 100 dropped 78%](#) from its peak. The second, the Great Financial Crisis, started in 2007. [From Oct 2007 to March 2009](#), the Nasdaq, S&P 500 and Dow Jones indices lost 54.9%, 56.8% and 54.1%, respectively. Yet, we enter 2020 with a 12-year bull market and indices at or near record highs (Chart 1). In the past twenty years, investors that stayed invested were rewarded with returns over 300% on North American major indices.

Chart 1: Major Indices Comparison 2000 to 2019



Source: Yahoo Finance

Two themes that drove stock returns in the past 20 years

1. Tech: Internet, A New Business Architecture
2. China: New Economic Superpower

Tech: Internet, A New Business Architecture

After the dot.com bubble correction, few investors would have predicted that two decades later, seven of the top ten publicly traded North American stocks would be tech companies and five of those companies were founded in the 90s and early 2000s. (Microsoft, Apple, Amazon 1994, Alphabet (Google) 1998, Facebook 2004, Alibaba 1999 and Tencent 1998).

Internet technology companies are the vanguards in this recent wave of corporate disruptions due to internet's transformational capabilities which created a new business architecture. The poster children for disruption would be Amazon, with its ability to deliver online retail to your fingertips, Facebook, the social media connector to the world and Google, the information collecting and processing behemoth.

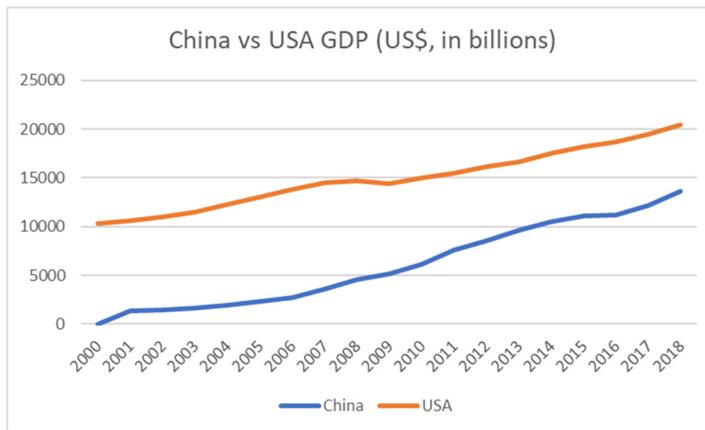
- [How the internet has changed business over the past 20 years.](#)

China: New Superpower

In 2000, China's GDP was \$1.2 trillion, which would rank sixth in the world at that time. In 2019, China's GDP was \$13.4 trillion, only second to US GDP of \$20.5 trillion (Chart 2). China has been the manufacturing engine for the world's economy for the past two decades (Chart 3). The Chinese government is focused on leading China to future dominance by utilizing the full weight of its economy and resources behind its Grand Strategy.

- [China's Grand Strategy](#)

Chart 2: China vs USA GDP



Source: Wikipedia

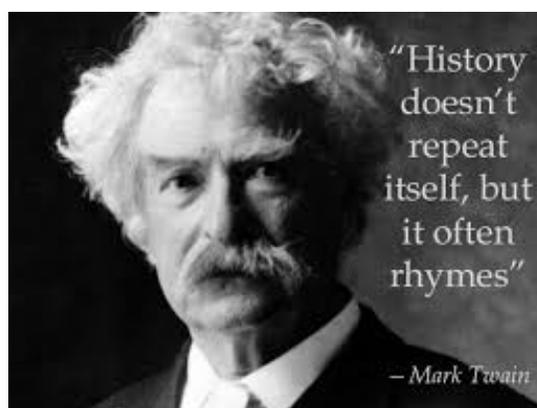
Chart 3: World's Leading Manufacturing Output

Top 10 Countries on Manufacturing Output, 2015			
Country	Manufacturing Output (USD in billions)	Percent of National Output	Percent of Global Manufacturing
China	\$2,010	27%	20%
United States	1,867	12	18
Japan	1,063	19	10
Germany	700	23	7
South Korea	372	29	4
India	298	16	3
France	274	11	3
Italy	264	16	3
United Kingdom	244	10	2
Taiwan	185	31	2

Source: United Nations Conference on Trade and Development, 2015

These two themes drove investment returns in the past 20 years

There were many themes that drove investment return for the past 20 years, but the two mentioned are arguably two of the most important themes. Internet and other technological advances in the past twenty years created a new business architecture. China was the manufacturing muscle for the world's economies with its large and inexpensive workforce. Together, these two themes drove the world towards a more globalized economy. There were very few Industries in the past two decades that were not significantly impacted by one or both these investment themes.



10 Themes That May Affect Investments for 2020 and Beyond

I am not a futurist. Although it would be wonderful to be able to predict the future, the probability of doing so successfully is remote. However, I found 10 investment themes that have a good possibility in disrupting the capital markets if they were to occur. By understanding the directionality of these themes, investors may prepare for the inevitable market turmoil and longer-term opportunities that lie ahead. The markets, in the short term, are [voting machines](#) and disruptions will often create irrational behaviour and inefficiencies, leading to attractive investment opportunities. Chart 4 includes the eleven sectors of the S&P 500 index and some possible disruptions to consider within each sector. I used the list of possible disruptions to select my 10 themes.

Chart 4: S&P 500 Eleven Sectors: Disruptions to Think About for Each

<u>S&P 500 Sectors</u>	Possible Disruptions
Communication Services	Starlink (described below) Direct to Consumer (Disney Plus, Netflix...) 5g (Internet of Things)
Consumer Discretionary	Will cars become a tech product? Truly self-driving cars? How will the Gig Economy impact this sector?
Consumer Staples	Can online retailers disrupt Fresh Products delivery? Will consumer staples company continue to use internet advertising? Or will influencers or another ad trend dominate? Will Peak Globalization become a factor?
Energy	Will renewables dominate? Will concern about anthropogenic climate change end the use of fossil fuels?
Financial Sector	How will Fintech disrupt banking? Will big tech further encroach on the financial sector? How will Passive Investing affect future financial markets?
Health Care	Will AI and big data revolutionize healthcare delivery? Will the distribution of pharmaceuticals change to lower cost?
Industrials	Will robotics become ubiquitous? How will ESG impact this industry? Will Peak Globalization affect the supply chain of industries?
Information Technology	How big will cloud computing become? What new Industry will stem from Cloud Computing? Will Quantum Computers become mainstream and functionally relevant? Will antitrust become an issue? Or will the Big Tech get bigger?
Materials	How will ESG impact this industry?
Real Estate	Will the retail apocalypse expand? Will Retail 2.0 reinvigorate brick and mortar stores?
Utilities	How will electric utilities deal with renewable energy and battery technology? How will climate change affect individual companies (eg. PG&E)?

century for the future of energy supply will likely create new investment opportunities as the tug-of-war on the future of energy sourcing plays out.

- a. [Renewable Energy vs. Fossil Fuels](#)
- b. [The Fossil Fuel Industry is Collapsing](#)
- c. [Forecasts of Peak Oil Demand Overstated](#)
- d. [Oilsands step up to take on clean tech challenge](#)

4. Space: The Final Frontier



SpaceX has captivated our imagination by disrupting how space exploration is conducted. NASA was a slow, expensive government managed bureaucracy. SpaceX is a dynamic, private company that broke many of the rules of space development. SpaceX was the first company to land its booster rockets, promising a new era of cheaper space exploration. Less known is that SpaceX is developing the StarLink, a communication satellite network that promises to provide low-cost broadband capabilities. If successful, Starlink could disrupt the

Telecommunication industry. SpaceX is not alone in this venture. SpaceX's most formidable opponent is Blue Origin, a private space company owned by deep pocket Jeff Bezos of Amazon.

- [StarLink Wiki](#)
- [Space X's Starlink Broadband Service Will Begin in 2020: Report](#)

5. Tech: Cloud Everywhere

Cloud computing has rapidly taken over the corporate IT culture. Cloud computing has the ability to provide on-demand computer resources that is scalable, more powerful and potentially cheaper. It's growth has been exponential and will likely grow further as companies modernize their IT infrastructure to take full advantage of the significant computer resources and skills required to implement Artificial Intelligence applications and manage the workflow of a dynamic workforce.



- a. [Cloud Computing wiki](#)
- b. [How Cloud Technology impacts the business world](#)

6. Fintech: Banking At Your Fingertips

In recent history, business trends tend to emerge from North America and spread to the rest of the world. However, in some cases, Western society's established industry architecture may work against them in adopting new business ideas or technologies, a classic "Innovator's Dilemma". The two big themes that jump out are Internet of Things (5g) and Fintech. In the case of Fintech, the big banks and credit card companies have been entrenched in Western society. In China, mobile payments using Wechat and Alipay is used in over 50% of transactions. Jamie Dimon, CEO of JP Morgan Chase wrote in his annual letter to shareholders, "it's hard not to be both impressed and a little worried" about China's progress in AI and fintech. The banking system, along with investors, should be on watch. Banking is being transformed. It is still uncertain how it will all play out and who will be the big winners in this sector. Facebook is trying to create the Libra. Amazon and Apple have their own 'Pay' features. Bigger disruptions in this sector is likely due the Financial sectors large margins and revenue potential.



- i. [JPMorgan CEO Jamie Dimon is both inspired and worried by China's Fintech](#)
- ii. [The cross-border payment war of WeChat Pay and Alipay](#)

7. Environment, Social and Governance: The Movement



The movement that is transforming how corporation conduct business operation, resulting in a change in mindset and priorities for both investors and corporations. It's has been estimated that a quarter of all professionally managed assets use an ESG decision making process. The change in investing objectives has significantly impacted the Energy sector. Norway's sovereign wealth fund, the world's largest sovereign fund, is divesting out of fossil fuels even though Norway derives 20% of its economy from oil and gas production. How will climate change affect the airline, auto and beef industries?

- [The Remarkable Rise of ESG](#)
- [Norway Wealth Fund to Dump Fossil Fuel Stocks Worth Billions in Environmental Move](#)

8. Passive Investing: A great investment tool but not without risks.



ETFs are relatively new, having started in the 90s. The low management fees and instant diversification have made ETFs the most powerful investing trend of the past twenty years. The grand daddy of all ETFs, SPDR S&P 500 currently has \$300+ billion in asset under management. Used and understood properly, ETFs have been a transformative investment tool for all investors. However, there are growing worries

that individual investors are blindly investing into ETFs causing a possible momentum-fueled bubble. There is a famous investment saying by Buffet, “You never know who’s swimming naked until the tide goes out.” All those individual investors that jumped on the ETF band wagon may not fully understand the risks of investing in a financial instrument that is generally agnostic to valuation, quality of management and downside protection (ie. balance sheet strength). It will be interesting to see if some of these individual investors would have benefited from life jackets, not to mention the worry about having a bathing suit on. For individual investors, in my opinion, it’s not a decision of using either passive or active investing, but instead using a suitable investment decision methodology: Investing decisions should consider the knowledge base, risk tolerance and financial capabilities of the individual investor. Active vs. Passive is probably a false dichotomy.

- [How big can the eft market become](#)
- [The Biggest ETF risks.](#)

9. Gig Economy: Redeploying the Workforce



Some of you may not have heard about the Gig economy. Gig is a slang word meaning ‘a job for a specified period of time’. You may have heard a musician or a actor say, ‘I got a gig’. Gig economy is emerging as a dominant business trend with the success of Uber, Lyft, AirBnB and Amazon. Since gigs are considered as contractors and not employees, Gig business models can bypass large expenses like healthcare benefits. California has introduced a new law that may slow down the growth of the

Gig Economy.

- [How the Gig Economy is Reshaping careers for the next Generation](#)
- [California Threatens \\$1 Trillion Gig Economy with New Law](#)

10. Big Tech Companies Getting Bigger

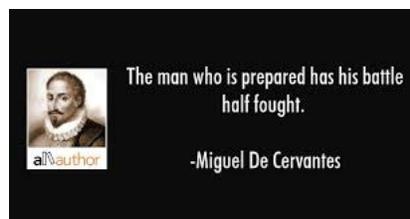
During the dot.com boom, it was common for a couple of young programmers to come up with an idea and in a few years become multi-millionaires, some became billionaires. Mark Zuckerberg, Facebook, Bill Gates, Microsoft, and Larry Page and Sergey Brin, Google are all examples of the opportunity and success of young talented individuals with an idea(s). However, in my opinion that the business environment is set up for the big dominant tech companies to get bigger.



- Current technology trends of cloud computing and artificial intelligence require significant resources as described in the AI and Cloud computing themes. Current AI technology is data, hardware and algorithm driven, all of which require the vast resources of only big corporations could provide.
- Business Environment- Normally anti-trust laws around the world would limit the scope and dominance of a business. However, with Alibaba and Tencent as formidable worldwide business competitors, the US big tech can justifiably point out that limitation in its business model may inhibit their ability to compete on a global bases with other super companies.
- Industries Merging/amalgamating? - Technology companies are getting into other sectors (eg. healthcare, financial) which expands the revenue potential of these companies: Watch out for Google Health, Apple and Amazon Pay.

In Conclusion

Themes are not an investment strategy. It's more a useful screening tool to prepare investors and portfolio managers for the potential of investment opportunities. There is a high likelihood that some of the 10 themes I described will impact the investment markets in the next decade. How much and the duration of the opportunities are unknowable. Nevertheless, 'the man who is prepared has his battle half fought.'



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