Investing in a changing world
Three Unfashionable Assertions
May 2016

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1. The investment industry’s inputs and yardsticks are broken
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At a macro level....

“GNP counts air pollution and cigarette advertising…

It counts the destruction of the redwood and ambulances to clear our highways of carnage...

…It counts nuclear warheads and armored cars for the police to fight the riots in our cities.

Yet the GNP does not allow for the health of our children, the quality of their education or the joy of their play...

It measures neither our wit nor our courage,

Neither our wisdom nor our learning,

…it measures everything in short, except that which makes life worthwhile”.

Robert Kennedy, March 1968
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At a company analysis level:

Cash use within the S&P 500

“The biggest risk is not taking any risk …in a world that’s changing really quickly, the only strategy that is guaranteed to fail is not taking risks”

Mark Zuckerberg

Source: Compustat and Goldman Sachs Global Investment Research.
2. The benchmark and its ‘safehavens’ are very risky
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Global Equity Index*

- Energy: 7%
- Utilities: 4%
- Health Care: 12%
- Consumer Discretionary: 13%
- Financials: 20%
- Telecommunication Services: 4%
- Information Technology: 15%
- Industrials: 11%
- Consumer Staples: 11%
- Materials: 5%
- Energy storage and renewables render the electricity grid and oil companies redundant

LI-ION Battery Pack Cost and Production, 2010–30

*MSCI ACWI as at 31 March 2016.

Source: Bloomberg New Energy Finance.
2. The benchmark and its ‘safehavens’ are very risky

*MSCI ACWI as at 31 March 2016.

Source: National Human Genome Research Institute.
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Average Interest Rate Spreads in the West


Mobile payments and peer to peer lending platforms circumvent traditional banks

Global Equity Index*

*MSCI ACWI as at 31 March 2016.

Note: 1970 borrower rate is commercial bank interest rate on 24 month personal loan Feb 1972; Today borrower rate is commercial bank interest rate on credit cards assessed interest Feb 2014; 1970 savings rate is average 3 month secondary market CD rate Feb 1971-1973; Today savings rate is 3 month CD rate in the secondary market as of April 2014.
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Global Equity Index*

*MSCI ACWI as at 31 March 2016.

High beta stocks may be the ‘safest’ of all!

What next for the Telcos?

OMG, RIP txt
Messages sent per day, bn

Source: Portio Research; a16z, Economist.com...

New communications tools circumvent traditional telco infrastructure
3. Equity volatility is not new and is to be welcomed
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Worst 1 year rolling return over the past decade

3. Equity volatility is not new and is to be welcomed

**Cumulative** returns over the past decade

Implications…

Look beyond the usual inputs and signposts – they are not fit for purpose
— Sponsoring academia, employing visiting professors, learning from urban geographers, archaeologists and historians is much more helpful

A stable culture underpins long term investment performance
— Creative thinking without fear of ‘career risk’

Equity managers should be more concerned about missing out on the upside than avoiding the downside
— Embrace asymmetric payoffs!