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Investing in the Age of Disruption

Investing

Eastman Kodak was one of the worlds most admired companies in 1996. Although Kodak invented the digital camera, their market dominance in film blinded them to the disruptive technology that they had created. By 2012 Kodak had filed for bankruptcy and in that same year, a 2-year-old digital photography company called Instagram with 13 employees sold for $1 Billion.

This is a familiar story as the internet has brought us many examples of disruptive technologies: Tower Records is replaced by Itunes, Borders Books by Amazon and Blockbuster by Netflix just to name a few.

The real story here is that we have just scratched the surface of disruptive technologies. Scott Cook, a co-founder of Intuit, says we're still in the first minutes of the first day of the Internet Revolution. The Wall Street Journal has called this the 4th Industrial Revolution also known as the age of Disruption.

The basis for all of this change goes back to Moore's Law named for Gordon Moore of Intel back in 1965. Basically, he stated that every 2 years computer processors were exponentially shrinking in size doubling in power and dropping in price. To better understand the power of exponential improvement, think of doubling a penny every day so that on day two you had 2 pennies and day three you had 4 pennies and so on. By day 15 you would have $163 – not bad – but then by day 20 you would have over $5,000 and by day 30 you have over $5 million. So exponential change can take some time in the beginning years until the pace of change becomes explosive. In similar fashion, Einstein is quoted as saying, "Compound interest is the 8th wonder of the world.

Enhanced computing power and technology innovation has created a world of information flow that according to IBM – over the last 2 years alone - we've created 9 times as much data as we had produced in the entire history of the world before that. This surge of information has helped to create new technologies that will greatly change the way in which we live.

The Internet of Things: Our devices will speak to each other in service to us without our input – think of Alexa and home automation as just the beginning of things to come. In 2016 – Alexa was released to the public capable of handling 115 tasks. Today it can handle over 15,000 functions. In 7 years Siri will know more about me than my assistant. A 2013 report by Cisco predicts that the Internet of Things will add $14 Trillion to the global economy by 2025.

Further specifics are beyond the scope and size of this article but a quick google search on any of the following will open your eyes to massive advancements in the following fields: Robotics, Artificial Intelligence, 3D Printing, Blockchain, Sharing Economy, Self-driving Cars, Biotechnology (CRISPR-Genome editing) Nanotechnology (Graphene).
While all of these innovations have the potential to greatly improve global economic growth, there will be many companies that fail to make the transition. A 2015 Fortune magazine survey of Fortune 500 company CEO's asked their greatest challenge: 72% said the rapid pace of technological innovation. According to Richard Foster of Yale: In 1920, the average company in the Standard and Poors 500 lasted 67 years. Today it is only 15 years. According to Babson College in a 2011 Fast Company Article: In 10 years, 40% of the companies in the S&P 500 will not exist.

How do we protect ourselves to both benefit from the coming storm and minimize our exposure to the casualties? Start by understanding what you own and ask why you own it. How does an asset fit in your overall financial planning needs analysis. Develop risk management policies that review holdings for structural business characteristics that will allow them time to generated excess economic returns for an extended period. Look for Patents, Switching costs, Cost benefits, and other sustainable advantages that will provide a buffer to adapt and potentially acquire new competitors. Pay attention to valuations and avoid herd mentality. Adaptability and risk management will be key attributes.

In the early 1800s, textile workers in England rioted extensively when industrial innovation threatened their jobs. They became known as Luddites, in honor or Ned Ludd, who had smashed several looms in 1779. The world adapted and is better off as a result of the industrial revolution. Like the Chinese character Weiji meaning "Crisis" this disruption will also consist of Danger and Opportunity. I believe we are again in the midst of another such period of change that will bring exciting times in healthcare and personal finance.

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