Confidence in Your Investments:
Retirement Plans, Financial Planning & Wealth Management

Why not just buy the "obvious" disruptive companies?

Go for a business any idiot can run – because sooner or later, any idiot is probably going to run it."
Peter Lynch

"Only buy something you'd be perfectly happy to hold if the market shut down for 10 years."
Warren Buffett

"Corrections are good, they'll keep us all humble"
Cathie Wood

Oh, the benefits of hindsight! Apple in the 1980's, Amazon in the 1990's, and Nvidia in the early 2000's are among the easiest examples of companies whose stocks made millionaires of the smallest of shareholders. The obvious follow-up question is why not own just those select few innovative, emerging, great businesses and not own Coca Cola, Pepsi, Nestle, Merck, and Chevron. Why own Walmart, Deere, Freeport McMoran and WD-40? Utilities, airlines, and telecommunication stocks typically underperform technology names…right?

The conclusions <u>seem</u> both elementary and obvious. Simply buy the disruptors, innovators, and "game-changing" companies and hold them forever! Just look at the QQQ vs. S&P Low volatility index over the last decade…21.8% vs. 5.6% (as of 6/13/24). That's more than a small difference! A similar case can be made for large caps versus small. A nearly 2x outperformance by large caps over the last decade!

And now to the less obvious part. The 3 great names listed above all lived in the Small/Mid Cap Box during the era listed…that same box that has lagged larger peers meaningfully over the past decade. Buffett and Peter Lynch…both VALUE investors (not growth) and two of the most accomplished and respected investors of the last century!

Warren Buffett's primary rule of investing is don't lose money, a sharp contrast to Cathie Wood's assertion that corrections are beneficial. Her flagship product lost nearly 78% in the 18 months from mid-2021 to the end of 2022. Her 50% return since only leaves another 200% to be back to even!

Many investor recall the late 1990's Tech run that ended poory. From its 2000 peak, the Nasdaq took 14 years to return to its all-time high levels. The theseis that the internet would change society held true, but many investors felt a tremendous amount of pain nonetheless. To be clear, we are NOT suggesting today resembles the Tech Bubble era!

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Today's giant, fast-growing business are profitable and well led. They're buying back record amounts of stock and many spending enormously on R&D (including AI). ***But they aren't cheap!***

The price you pay matters. Paying a premium for a stock demands that company outperform expectations. Today, expectations around AI and disruptive companies are the highest since the late 90's era. All may deliver and even exceed those expectations and continue a record-setting run. *But some are likely to disappoint!*

Recent history shows the punsihment dolled out when they miss. A few examples are below:

Company	Timing	% Drop	Reason
META	Fall '21 - Fall '22	~75%	Metaverse Spending Plan
CRM	Fall '21 - Late '22	~57%	Earnings and guidance disappointments
AMZN	Fall '21 - Late '22	~56%	Overhiring and overbuilding during Covid
NFLX	Fall '21 - Spring '22	~77%	Password Shaing and Ad Tier testing

The list above doesn't mention Peloton, Moderna, Alibaba, and other darlings of the Covid-era. It includes only some of the biggest and best technology names on Wall Street!

As distant of a memory as the early 2000's may seem, there was a time when Value stocks outpaced growth stocks and non-US outpaced the US markets. Despite being a large non-US domiciled healthcare name, Novo Nordisk (NVO) has still posted a nearly 10x return since late 2016. Although he entered AAPL well after the iPhone was introduced, Warren Buffett is still up more than 400% on the stock in less than a decade.

Picking tommorrow's winners is harder than it seems. After the fact, it often seems so obvious. In buying disruptive stocks, whether you're a retail investor or a professional money manager involves significant risk of capital and requires a strong willingness to ***both cut one's losses and acknowledge defeat (while still having the conviction to hold certain names after the've fallen 50% or more)***. In September of 2000 AAPL stock fell 51.89% in a single day! AMZN dropped more than 90% over a 2-year span in the early 2000's. Berkshire Hathaway was up more than 20% per annum during the Tech Bubble (while the Nasdaq shed over 78%). There's room for both exciting and "boring" in a portfolio. **In most cases, being right means you survived being wrong for a long time!**

If not properly balanced, "Obvious and elementary" can quickly transition to painful and unbearable.

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