Who Are We Now?

Wyatt Earp, Pizza Hut and World War II's most expensive weapons project all have connections to Wichita, which sits in the lowland region of the Great Plains. Pre-1800, roughly 60 million bison roamed this American wilderness before numbers plummeted to less 1,000 at the turn of the last century. Wichita's plains, which once supported these magnificent beasts were replaced by factories building Boeing B-29 Superfortress planes, which eventually dropped atomic bombs on Japan.

by Paul Crocker, Investment Director, FIM Capital Ltd

Perhaps we have learnt from the error of our ways, preventing further destruction? Certainly, blame evolution rather than Wichita, a city more commonly associated with Glen Campbell. The song "Wichita Lineman" was written in 1968 by Jimmy Webb, inspired by men working alone in extreme weather, dangerously repairing faulty telephone lines. These were skilled blue-collar workers who played a vital role in the massive infrastructure investment undertaken in the industrialised world.

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Today, it's less easy to romanticise about technological or infrastructure advances, as we edge towards materialism, spending our final years in a nursing home with our every need satisfied by robots, while the next generation sits at home playing video games. Yet, does it matter? As an elderly person, I suspect I won't care but as an investment manager seeking decent returns from emerging businesses, it's an exciting thought.

Technological advances are gaining momentum. In ten years' time there is a real chance that we will no longer recognise our living environment. Combustion engines, gear sticks and steering wheels will have gone, some will be cohabiting with robots and verbal communication will further diminish. Governments will be on a war footing to combat climate change, as disruptive weather patterns cause population dislocations of biblical proportions. Britain may even be the only country left in the EU, after Barnier and his cohorts realise that it's easier to leave Europe than to persuade the UK to leave. Pleasures will be heavily taxed because of their environmental impact, while urbanisation will slow, as pollution and weather increasingly disrupt daily life. For every problem, technology will present a solution.

Such changes also create threats, resulting in higher stock volatility in vulnerable sectors. Once a company exhibits decent margins, technological shortcomings or low barriers to entry will render it a target for entrepreneurial disrupters, tapping into an almost unlimited pool of venture capital cash. Industries, which fail to invest quickly, find themselves on the back foot, struggling to maintain traction. The global auto industry is a prime example of complacency, opening new doors to upstarts such as Dyson, Coda Automotive, BYD and Tesla, proving that size is no deterrent (as demonstrated by the British coal industry, which once employed 1.2 million people). We should ask whether this same demise is now taking place across the banking sector, traditional advertising, fashion, general financial services and retail, for example. RBS, Marks & Spencer, WPP and Royal Mail have done well to survive this long but can they adapt? Turn the clock back thirty years and many investors would not recognise the market heavyweights; Plessey Co., Racal Electronics, and Ferranti being yesteryear's tech stocks, all of which are now gone. Then there were the conglomerates, such as BTR, General Electric and Hanson Trust. Again,all gone. Yet, the question every investor should be asking their manager is: what do you do when the writing is on the wall? Are you like a startled rabbit in the headlights, oblivious to an imminent end, in a state of denial or simply frozen with fear, hoping your benchmark will cushion the impact?

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A few years ago, an investment professional called Lee Freeman-Shor wrote a book called "The Art of Execution" in which he described different types of investors. Unsurprisingly, "rabbits" made up the majority. These are influenced by consensus opinion, frequently blame the market and fall in love with stocks, rather than evaluating fundamentals. Inactivity typically follows adverse price movements and portfolios are dominated by familiar large cap names, "mutton dressed as lamb" and exchange traded funds. "Assassins", on the other hand, know their stocks but actively use stop-losses. They are not swayed by consensus and run their winners, regardless of the scaremongering, which follows hot on the heels of outperformers. Stock volatility can lead them to sell potential winners. Then there are the "raiders", who take profits too early and head back into cash. "Connoisseurs" also take early profits but tend to leave much more on the table to carry on running. Lastly, there are "hunters", investors who perhaps bought too high initially but have strong convictions and will therefore keep buying in a market correction.

So, sticking with the music theme "Who are you", what are we at FIM? We are certainly not "rabbits" or "raiders", nor indeed "assassins". I would perhaps suggest a cross-breed of "connoisseur" and "hunter". The proof? Visit our Pound a Day Portfolio website, which details our range of four low-cost options. The American Selective portfolio was established in December 2014 and we still hold its original 16 stocks. Its annualised return in US dollar terms is just under 10%. The sterling-based Selective Growth Portfolio, with a focus on emerging UK FTSE 250 companies, has experienced higher levels of activity, but with annualised returns since its inception six years ago of around 12%. Such numbers will be music to the ears of our clients and provides proof for others that not all active managers are the same. I guess it must be time to "Hit the Road Jack" and visit a few more companies now.

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