


Investing in Technology

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Y2K: The Bubble on a Bubble

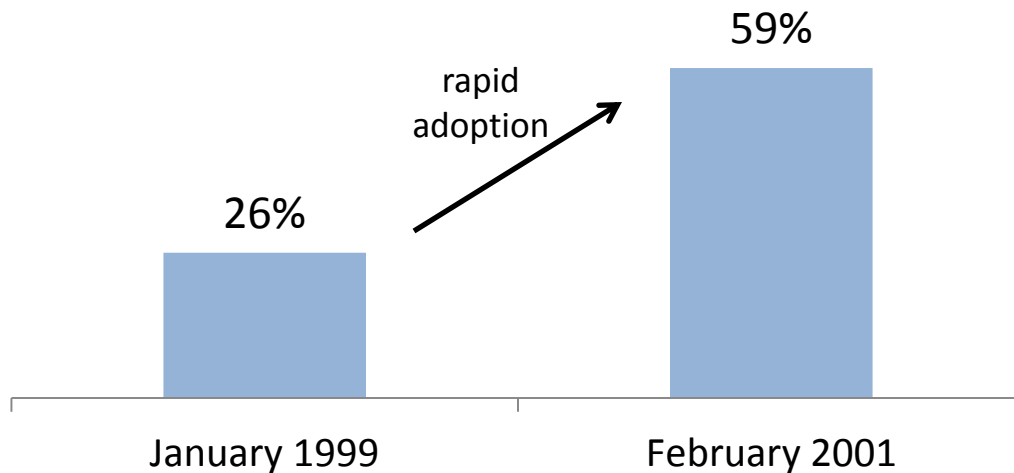


Real-world developments....

- **ERP Boom (SAP, Oracle etc)**
PC-based client server computing automates business processes

- **Mobile Phone ownership takes off (Nokia, Motorola etc)**

UK mobile phone penetration 1999-2001



Source: UK Continuous Household Survey

Y2K: The Bubble on a Bubble



...But most ideas were too early (or just silly):

- Dotcom boom
- Boo.com, Webvan, Pets.com
- Eyeball count used to value IPOs
- TMT over 30% of FTSE Index: closet Index funds trapped by their benchmark

From Double Bubble to Double Trouble



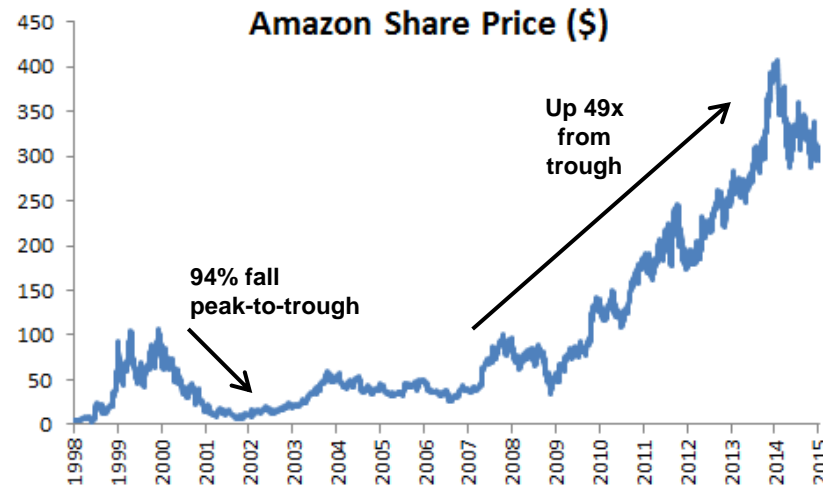
- 10% of NASDAQ dotcom listings bust by 2004

- Frankfurt Neuer Markt

- Mar 1997: 1,000
 - Mar 2000: 9,631
 - Oct 2002: 313
 - Jun 2003: Shuts down
- fall of 97% !!

- Amazon shares fell from \$107 to \$6
....but trade around \$300 today

Advantage to investors who identify winners, average down and hold!



Source: Yahoo Finance

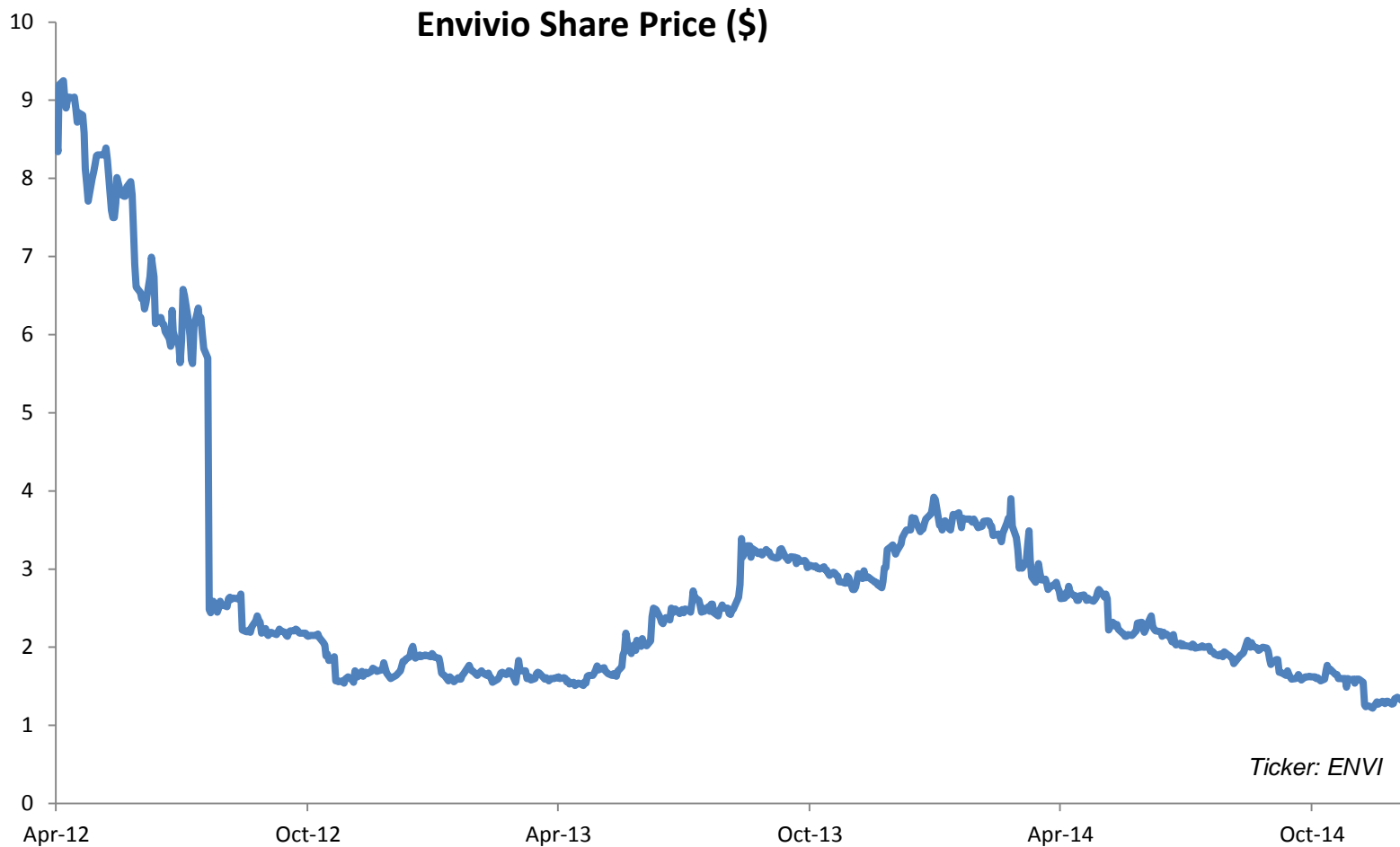
Identifying winners



Principles

- Spot the disruption which lets small, rapidly-growing companies replace tired, old ones
- Find the Bottleneck in a newly-emerging industry
- Maintain proper disciplines when valuing stocks, using S-Curves to model future earnings, potential intrinsic value

Early movers don't always win



Source: Yahoo Finance

Disruption: Online is finally taking off...



		Source	Notes
World GDP	\$ 76 trillion	IMF	Estimated for 2014
% Household Final Consumption Expenditure	60%	World Bank	2012
Global Consumer Spending	\$ 46 trillion		Implied
Business-to-Consumer E-Commerce	\$ 1.5 trillion	eMarketer	Estimated for 2014
Online (E-Commerce) Penetration	3.3%		
Mobile Commerce	\$ 0.23 trillion	Global Mobile Commerce Forum	Estimated for 2014
Mobile Commerce Penetration	0.5%		

...but penetration is still very low (especially in Mobile)



Disruption: Newcomer's cost advantage



In-house vs Cloud Computing



Old Model

New Model

up to 300 systems

One System

high internal IT budget

IT bills 50%+ lower

own & upgrade Hardware

rent Hardware when needed

Bottlenecks



PCs:

- Microsoft + Intel = 90% of industry earnings 1989-2009

Smartphones:

- iPhone + Android dominant

Online Advertising / Online Retailing:

- Google & Amazon

More web users, and yet fewer, deeper websites. Why?

People need to work with common standards/platforms

Valuation



- Ignore nearly all published models
Instead, BYO (Build Your Own)
- Projected S-Curve + Market Share = Revenue Forecast
- Costs: largely fixed, mainly outsourced
- P/E ratio:
Compellingly below market average on Genuinely Achievable Earnings

Summary



- Real use of the Internet is still very low relative to potential
- Adoption changes industries and throws up new Winners
- The real Winners are almost always Monopolists / Oligopolists
- Tomorrow's Winners usually have cheap valuations
- they shouldn't do!
- Spotting real Winners is horribly difficult.

Disruptions of 2015 - 2025



- eCommerce + mCommerce take share off Bricks & Mortar retail
- Cloud takes share off legacy software
- P2P lending takes share off Traditional Banking
- Widespread Tech adoption in Agriculture
- Underlying deflationary price trends accelerate on removal of middlemen, easier price comparisons, change to 'faster fashion' business models
- A lot more!

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