

Titans of the Future Passed

Part 1 – The Past

Our world is changing at an ever-increasing pace. New technological innovations keep pushing the boundaries of what we thought possible, every day. In spite of this, we tend to overestimate how much change we will see in the next year and underestimate the changes we will witness over the next 10 years. We just aren't that good at predicting the future. When looking at the world today, it is hard imagine wholesale changes to the way we live.

The investing world adheres to the same rules. We have no idea what products and services the companies of tomorrow will be selling. If you had asked someone in the mid-90's what companies would be dominant by 2019, no one would have staked their reputation on predicting a web search engine and online store as some of the most successful companies in the world. A mere 10 years ago, Blackberry was one of the biggest cell phone manufacturers, holding its position for quite some time. And yet, it seems so long ago.

Looking at the world today, it's hard to see how the 'Titans of Industry' could be unseated. To see a world without Apple, Microsoft, Google or Amazon seems like quite a stretch of the imagination. To be clear, all companies will be worth zero in the faraway future - this is a fact. I might not be able to foresee how King Bezos will lose his crown, but I know that at some point, he will. There are, however, some exceptions to the rule. One such company is Kongō Gumi. This company was founded in Japan in 578 and is still operating today as a subsidiary of larger company Takamatsu. It specialises in building and restoring Buddhist temples. Another notable exclusion is Sean's Bar in Ireland, the world's oldest pub founded in 900. It seems fitting that the Irish managed to keep the doors of this establishment open all these years.

The table below illustrates the top 10 constituents of the S&P500 Index over time. It gives a clear indication of who the largest companies were over time, not all of whom share the same staying power of Kongō Gumi :

Rank	1985	1990	1995	2000	2005	2010	2015	2018
1	IBM	IBM	General Electric	General Electric	General Electric	Exxon Mobil	Apple	Microsoft
2	Exxon	Exxon	AT&T	Exxon Mobil	Exxon Mobil	Apple	Alphabet	Apple
3	General Electric	General Electric	Exxon	Pfizer	Microsoft	Microsoft	Microsoft	Amazon.com
4	AT&T	PMI	Coca-Cola	Citigroup	Citigroup	Berkshire Hathaway	Berkshire Hathaway	Alphabet
5	General Motors	Royal Dutch Petrol	Merck & Co	Cisco	Procter & Gamble	General Electric	Exxon Mobil	Berkshire Hathaway
6	Royal Dutch Petrol	Bristol-Myers Squibb	Royal Dutch Petrol	Wal-Mart	Wal-Mart	Wal-Mart	Amazon.com	Facebook
7	El du Pont de Nemours	Merck & Co	Philip Morris	Microsoft	Bank of America	Google	General Electric	Alphabet
8	Amoco	Wal-Mart	Procter & Gamble	Amer International	Johnson & Johnson	Chevron	Facebook	Johnson & Johnson
9	BellSouth	AT&T	Johnson & Johnson	Merck & Co	Amer International	IBM	Johnson & Johnson	JPMorgan Chase
10	Sears	Coca-Cola	Microsoft	Intel	Pfizer	Procter & Gamble	Wells Fargo	Exxon Mobil

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Although the S&P 500 is not a perfect measurement of the world's biggest companies, data from the 1980's is reliable and readily available. As America is home to some of the best-known behemoths, it is a good proxy to show how the market place has changed over the past few decades.

One company that featured throughout the measurement term is Exxon Mobil, known as Exxon before merging with Mobil in 1999. Although the company has been falling in the rankings, it has maintained a relatively stable market cap, albeit slightly lower than at its peak. We have not been able to wean ourselves off of a nasty, decades-old oil habit just yet.

At the top of the list in 1985 and 1990 is IBM – an early tech company with innovative operations for the time. It would be hard to find a dispassionate measure of the broad investor sentiment from the time. My guess would be that most couldn't see how a company like IBM would be overtaken in an era where technological progress was speeding up relentlessly, as they were operating at the bleeding edge. Today, while no minnow, the company is in a very different position. They have a market cap of \$ 125bn, which peaked at \$ 218bn in 2012. With debt increasing and revenues stalling, the company has seen better days.

Another entry worth mentioning is General Electric – a giant of early technological innovations. General Electric was formed in 1892 and was one of the original 12 companies listed on the Dow Jones Industrial Average Index. Since its founding, it was considered a company focused on bringing tomorrow's innovations to you today. It was a regular feature of the index until recently, when the company started taking severe financial strain.

While many of the companies from the 1980's and early 1990's are still around today, it became harder for them to keep up with new competitors and keep abreast of a changing marketplace. Older companies are frequently hamstrung by legacy business lines and systems that slow them down. Managing this effectively has been a key ingredient in remaining on top in their line of business for more than five years. It is evident how difficult this can be, when we look at how much the list changes every five years.

Over the past 30 years we have witnessed extraordinary change. The next 30 years will show even greater innovations, and there is no guarantee that the current giants will be at the forefront forever. We are excited to see how this list develops.

There is a lot of money to be made in being an early investor in a titan of tomorrow – to spot the future Apple, Amazon or Google. Many will realise the futility of trying to pick out single companies that could grow from a small cap to the blue-chip of the future. However, this will not stop people from trying. Next week we will take a look at a few companies that investors are backing with the potential of becoming future titans.

Kind regards,



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Wealth Manager

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