

Titans of the Future Passed

Part 2 – The Present

Last week we looked at some of the titans of the past in Titans of Future Past – Part 1 ([click to view article](#)). Today, we will be polishing our crystal balls to look at tomorrow's titans. Okay – maybe not. We will, however, be looking at people's perceptions of tomorrow's titans. Easier said than done.

If we were to ask each investor to complete a survey regarding their ideal investments, it would have taken ages to get the results. And by the time the results were tallied up, many of these perceptions would already have changed.

There is, however, an interesting piece of research that could help us find cases where investors are putting their money where their beliefs are. A paper compiled by the World Bank studied the relationship between transaction costs and holding periods. The authors of this paper found that, among other things, households hold shares for longer – if the transaction cost is higher. While they do not explicitly state that lower transaction costs lead to shorter holding periods, it might be an indication of this if high transaction costs lead to longer holding periods. Intuitive, it does make sense. They also found that households that hold their shares the longest enjoy greater returns than those with shorter holding periods. I wouldn't want to bet my career on this being true in all cases, but generally the advice could serve you well.

The research supports my view that the most up-to-date investment ideas are found where transaction costs are lower. When holding a blue-chip stock, most will not want to trade this position relentlessly, thus making trading costs less of a concern. Investing in higher-risk shares requires a clear exit strategy if initial assumptions are wrong. The latter scenario would favour an environment where trading costs are lower.

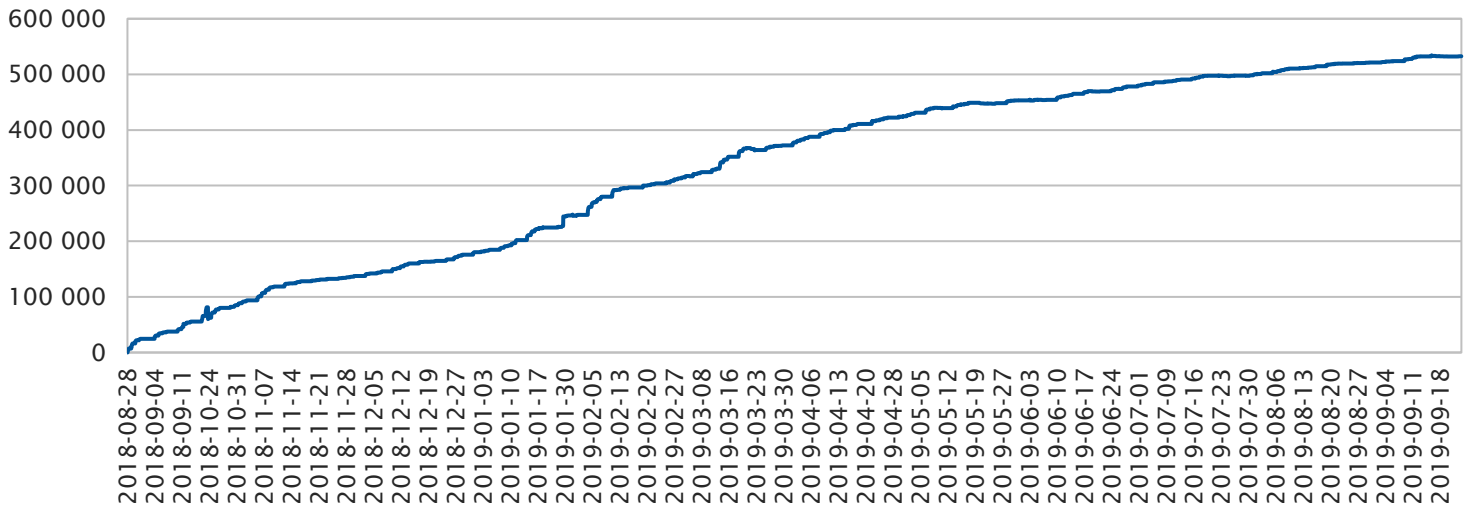
In the financial industry, there has been relentless pressure to reduce cost to clients. Although the situation has improved for customers of financial institutions, we might not be at the ideal/final stage yet. Brokerage cost is one of the areas that has seen a drastic decrease. One brokerage firm has thrown down the gauntlet, offering their customers the ability to buy and sell shares and ETFs on their platform without paying a commission. For brokerage firms, commissions are their main source of revenue. If you do not get charged commission, you would be paying for it in another way. There are no free lunches. The firm mentioned above, named Robinhood, has enjoyed great success in gaining customers. Big surprise. This article claims they have four million active users. Most of the customers are folks trading for their own account. This seems like the perfect time to do some digging.

A good place to start would be to find the most popular stock on their platform, as most of the accounts are self-directed. For the purpose of this exercise, we reviewed the number of accounts holding a specific stock so that the numbers would not be skewed by the larger accounts.

The number one position, by some margin, is taken up by Aurora Cannabis Inc (ACB). This is a very interesting situation. The company has a market cap of around \$ 6.4bn, while it managed to record sales of \$ 275mn, and incurred an operating loss of \$ 297mn in the last financial year. Not to get stuck in the weeds, but there has been a recent takeover deal and the company is sinking a lot of money into growing their capacity. **Chart 1** (below) illustrates the number of Robinhood accounts that holds ACB shares over time.

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Chart 1 : ACB Number of Shareholders



Source : Seed Investments (30 September 2019)

Now is probably a good time to mention that the majority of Robinhood accounts are held by Millennials. Thus, the stock of a cannabis company in pole position should not come as a shock.

Developed nations are increasingly legalising, or at least decriminalising, the use of marijuana. Many feel that this will replace the use of alcohol and tobacco, at least partially, for a significant number of people. Cannabis is clearly a sector that many investors believe is going to become increasingly important, and Aurora is their champion. But beware - the share price of Aurora has been on the decline. At its peak in October 2018, the share price was \$ 15. Currently, the price is only \$ 6.29.

There are some similarities to Tilray, another early cannabis company. Although never as popular as ACB, it was still widely held, and the company enjoyed a lot of press coverage for a short time. Its share price declined from a peak of \$ 165 in October 2018 to \$ 26.73 currently. Both companies have seen the number of investors on the platform increase, even as the share price steadily moved down. A clear vote from investors that the tide will turn at some point.

We have also seen some mega-IPO's over the past few years. One name that immediately springs to mind is Uber, which went public in May 2019. Although they do not make a profit, they are aiming to bring self-driving cars to the mass market - an expensive endeavour. I, for one, am looking forward to having extra time to be productive behind the steering wheel, should this be a success. I hope it works out, and I know many others feel the same way.

Uber is coming under increasing pressure, which is reflected in the share price. From the peak of \$ 46 it is now trading under \$ 32. The company stands to make a fortune if it can use its existing platform to offer autonomous rides to its users. It is at the forefront of autonomous driving and, by extension, artificial intelligence. This is truly next-generation stuff. Pulling it off will be a big deal, but there is a lot of competition in this field so it will be no easy task.

Tesla is a very contentious company. It is another loss-making enterprise that is doing cutting-edge work. Mr Musk does not shy away from the public eye, and while some love it, others do not. The electric car is an

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engineering marvel, and Tesla also finds itself in the lead when it comes to autonomous driving and the accompanying artificial intelligence technology.

Snap, another loss-making company that is very popular among Robinhood users, focuses on a social media platform and partnered hardware products. Tencent has a notable 12% stake in the company. The hardware business designs smart glasses, an early-stage augmented reality (AR) product. AR is another area that investors consider to be the next 'big thing', and many believe this company stands a chance of making a success of it.

Lastly, we take a look at Fitbit, a tremendously popular company that specialises in wearable tech. Their smart watches gather an incredible amount of biological data from its users, and the information collected could be applied in any number of ways, such as biometric recognition, insurance, wellness and medicine (to name a few). There is undoubtedly value in the data they collect, though concerns over the use of this data is plaguing the company. And you guessed it – the company has not been turning a profit over the past few years. The share price has been under pressure, while the number of shareholders on Robinhood has been increasing.

These are a few of the contenders fighting it out to be a future titan, if we count the number of investors holding these shares to be a vote of confidence. It might very well be that one of the above survive long enough to assume the title - only time will tell. We are excited to see how these companies fare in the future.

With trading costs coming down, it is likely that holding periods will be driven down as well. While this may allow investors to update their positions faster and more efficiently in line with an updated set of assumptions, it could increase speculation. With shorter-term goals, investors would need to keep a close eye on developments in order to update assumptions quickly and act accordingly. If the aim is to invest over the short-term, the window of opportunity is small and can easily be missed, which leads to it being a high-risk way of operating.

We ascribe to the idea that the investment horizon should be a decade or longer, maybe even permanent in nature. Although we know this is not always possible, approaching investing this way can steer you away from a marginal opportunity. In today's landscape, fast-paced companies are making incredible progress in an ever-changing environment. In this fluid scape, investors should remain disciplined in applying long-term thinking.

Kind regards,



Stefan Keeve CFA, CFP®

Wealth Manager

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