Big Techs’ *Monopolistic Competition*, The *Reddit* Revolt & *Roaring Twenties* Rallies

Technology

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Fearing nineteenth century technologies, Senator John Sherman in 1890 famously announced on the Senate floor, “*If we will not endure a king as a political power, we should not endure a king over the production, transportation and sale of any of the necessaries of life*”; Congress passed the **Sherman Antitrust Act** that same year.

Today, technology has become less of a standalone sector itself and more of a secular force that will affect every corner of the global economy, spurring shifts in market share and market capitalisation and generating opportunities for wealth creation and destruction.

Cite:- US China Trade Wars Are Not The Only Problem For Investors As Tech Fight Looms, 9 April 2018

For investors, it will be critical to understand how market leadership might evolve and who the major long-term winners could be, requiring an open mind and the ability to imagine how different an industry or consumer experience might be if technological advancement were to progress at an accelerating pace.

Cite:- How Australian Investors Should Navigate Asia’s Fintech Race, 8 May 2019

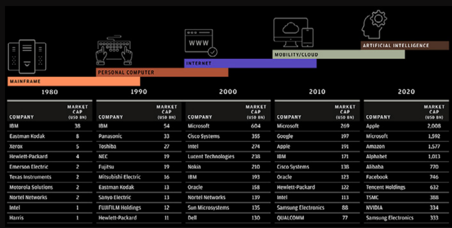
Here we believe an active investment approach can be especially useful in identifying which companies are best positioned to benefit from powerful secular shifts but this has been challenged by the unprecedented market movements of post-March 2020, the ascent of Nasdaq darlings and throughout January, the buzz surrounding the **short-selling squeeze**, “***Reddit Revolt***”.

Following a speculative frenzy ignited on the online bulletin board chat platform, Reddit this past week, Gamestop [GME:US], the bricks and mortar video game retailer – who has been in financial trouble for months and failing to turn a profit since 2018 – has been the focus of significant institutional hedge fund short positions, leading to hedge funds borrowing shares from their prime brokers to bet that GME stock will collapse as the company lurches towards bankruptcy.

Cite:- eSports, 19 July 2018

Cite:- Chinese Internet Megatrend Going Global, 4 December 2018

Some estimates suggest one hundred and forty percent of the company’s shares are currently being used by shorts, leading to a perverse scenario whereby short sellers can technically borrow more shares than actually exist.



1980 Company	Market Cap (USD BN)	1990 Company	Market Cap (USD BN)	2000 Company	Market Cap (USD BN)	2010 Company	Market Cap (USD BN)	2020 Company	Market Cap (USD BN)
IBM	38	IBM	54	Microsoft	604	Microsoft	269	Apple	2,008
Eastman Kodak	8	Panasonic	33	Cisco Systems	355	Google	197	Microsoft	1,592
Xerox	5	Toshiba	27	Intel	274	Apple	191	Amazon	1,577
Hewlett-Packard	4	NEC	19	Lucent Technologies	238	IBM	171	Alphabet	1,013
Emerson Electric	2	Fujitsu	19	Nokia	210	Cisco Systems	138	Alibaba	770
Texas Instruments	2	Mitsubishi Electric	16	IBM	193	Oracle	123	Facebook	746
Motorola Solutions	2	Eastman Kodak	13	Oracle	158	Hewlett-Packard	122	Tencent Holdings	632
Nortel Networks	2	Sanyo Electric	13	Nortel Networks	139	Intel	113	TSMC	388
Intel	1	FUJIFILM Holdings	12	Sun Microsystems	135	Samsung Electronics	88	NVIDIA	334
Harris	1	Hewlett-Packard	11	Dell	130	QUALCOMM	77	Samsung Electronics	333

Because of this, Reddit “*day-traders*” launched a campaign to trigger a short squeeze in GME shares –this meant that institutional hedge funds then needed to return those borrowed shares to their brokers at some point and as the share price ratcheted higher, to avoid margin calls, the only way to do avoid being short squeezed was to buy actually GME stock.

As a result of this, GME shares have gone from US$20 to over US$200 in just under the past two weeks.

But beyond this spectacle, across sectors and industries, more businesses have become more effective in leveraging new technologies to disrupt their markets.

What’s more, these disruptors are blurring the lines between sector classifications.

As we enter a new era defined by artificial intelligence (AI), we see these trends accelerating as companies build proprietary platforms to target each sector by drawing on more powerful and unique data collection, computing infrastructure and software.

The cloud has allowed companies to gain market share where cost was once prohibitive, so the company with the technological advantage, not the market share leader, has the advantage for the next five years.

We seek to find who those thrivers and survivors will be across all sectors, allowing us to capture long-term free cash flow generation; we’re also willing to pay a certainty premium, although the future is never guaranteed.

Cite:- Options Remain Open: Defence, Protection & Risk Mitigation, 27 April 2020

Since last April, equity markets have been on a tear with many of the bellwether indexes rising at ninety to one hundred and thirty percent on an annualised basis.

We expect a global rebound in growth, corporate profits and employment this year but investors should be wary of one-directional markets after last year’s rally and given uncertainties on COVID mutations and vaccine efficacy.

Cite:- A 2021 COVID-19 Vaccine Likely But Remains Underpriced: Ignore the Pollyannas & Identify The Winners, Early, 25 August 2020

With 2021 being a year of rising markets with bouts of intense profit-taking at points along the way, there has never been a more important time than now to understand the importance of technological change and how it is paring winners from losers.

Savvy global investors always look out for new ways to realise their conservative risk-adjusted investment exposures and although most investors are familiar with the leading US S&P500 index, its mid and small cap counterparts, the S&P400 and S&P600 don’t get quite the same coverage in the financial press and yet these are powerful tools that are often overlooked.

If we look at the S&P500 in particular, the level of concentration in the top fivenames is now the highest it has been in 40 years (20.19% as of December 31, 2020). It is interesting to note that between the 1970’s and today, the highest level of concentration reached was in December 1999, prior to the tech bubble burst.

Cite:- Grievous Bodily Calm: Beware Being Pumped & Dumped, 29 May 2020

An important implication is that the S&P400 and 600 index returns are less reliant on a handful of names, and may therefore be an effective tool for diversifying US equity exposure.

Small and medium sized businesses have been disproportionately impacted by the pandemic and have lagged in recent years, but may present greater growth opportunities for long term investors moving forward.

Cite:- Cheating, On Cheating, On Cheating, Maintaining Portfolio Quality In The Era Of Cheating, 13 March 2020

These mid and small cap indexes may be poised to benefit from possible M&A activity ahead of us. The S&P400 and 600 have historically had a higher correlation to a number of economic indicators (GDP growth, investment and consumption growth).

As the re-opening becomes more broad-based, if consistent with such higher correlations, these indexes may provide a higher beta, leading to outperformance versus the bellwether S&P500 itself.

Remembering that hype cycle in technology has further to run, it is imperative to separate technical and fundamental market moves, for every technical move has a fundamental spark.