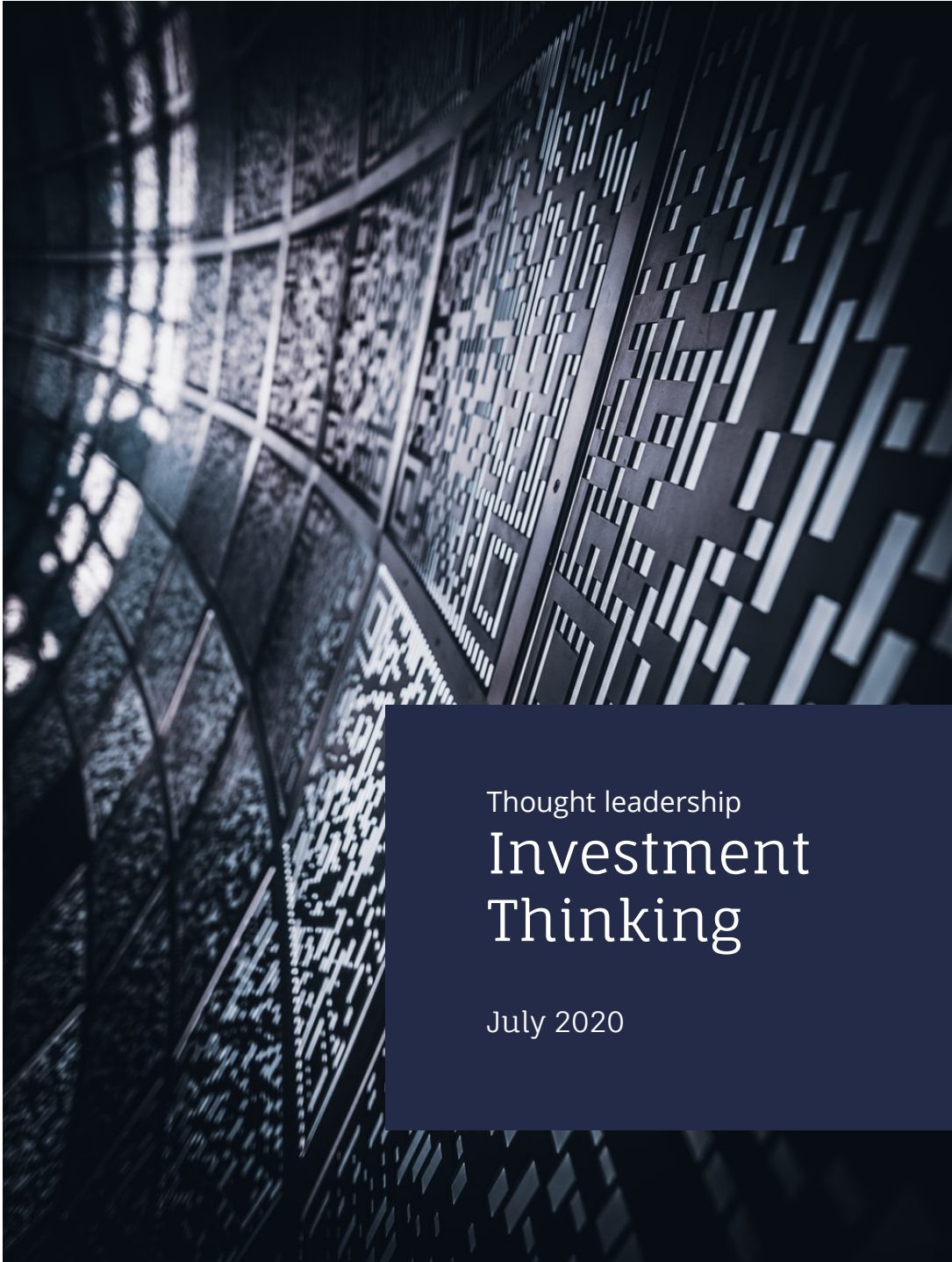




BINARY CAPITAL

Investment Management



Thought leadership

# Investment Thinking

July 2020

Long-termism shapes our relationships and our investments

# Survival of the Optimists

In my previous investment note I talked about being positive. Having a positive mindset and focus – importantly framing that positivity around investment strategies. This note goes a step beyond that, focusing on positivity and optimism in the context of the future and bringing that all together on how we at Binary Capital think about investing overall and indeed how we invest on behalf of our clients.

If the current pandemic has taught us anything, and it should have taught us so much, we have learnt that many of us underestimate or fail to understand the basic tenets of the future and how they themselves could be affected by future trends. One simple example is the clear failure to understand exponential growth in the context of COVID19. For many, future growth is difficult to apprehend. When numbers move exponentially, many peoples' understanding or 'perception anchor' is more additive in nature, not exponential – even our politicians make this basic and simple mistake. History will judge that basic failures in the use of mathematics led to difficulties in understanding the COVID19 pandemic and perhaps even formulating policy responses around it.

How has the above anything to do with finance or indeed investing? As investor's understanding of mathematics clouds their judgement, then their lack of understanding or perception of the future in coherent, rational terms, can also cloud their decision making. This can lead to inaction, indecision, inertia or just poor choices generally. The present and the immediate future tends to be anchored in the past; the longer-term is too far away to contemplate, is too uncertain, is difficult to understand and also too unknown. We would rather not think about the future or try and understand it now.

In investment markets during the 2010's we have had 10 years of strong market performance, performance driven by exceptional business performance in many technology or technology related stocks, such as: Netflix, Nvidia, Broadcom and Amazon to name a few. Such businesses have taken a grip on their respective business models, driving revenues, gaining market share and continuing to disrupt traditional businesses in their areas of domain. All of this has been undertaken within the broad context of innovation, a drive to succeed and taking on incumbent players in new ways – as noted, mostly driven by technology. I quote Bill Gates: '...we overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten years. Don't let yourself be lulled into inaction.'



The motivation to innovate and grow is not a static or defined in months or a decade. It is ever growing, evolving, and determined by a multitude of factors – factors that are often unseen, unknown, and random. The point is innovation is ever present, growing and often exponentially so. People can get unnecessarily cautious and defensive after a period of long economic growth and corporate innovation producing real ‘winners’. However, a proposition that is worth seriously considering is - what if the current decade is just as innovative, disruptive and growth focused as the decade just gone, or even more so? We could witness similar or even better opportunities in areas of: technology, healthcare and some areas of retail and transportation.

The cost of sequencing a human genome moved from \$100,000 to less than \$1,000 in 10 years – a breathtaking pace of growth and outcome. What happens if the disruption is even more pronounced: disruption in healthcare, transportation, technology and retail or even sectors such as construction, manufacturing, education and government? Growth and innovation does not work in a narrow space. Technologies such as machine learning, artificial intelligence, robotics and further data analytics will only lead to further innovation growth, leading to more optimal outcomes and fundamentally more interesting investment opportunities.

At Binary Capital, we aim to seek out such investment opportunities and position them in our investment solutions for the long-term. We can then make sure as investors we are positioned for the most optimal outcomes to benefit our clients. We look to achieve such outcomes even around different risk outcomes - we look to take advantage of future trends in the right way, the right manner with the right strategies. Being well positioned in such growth outcomes and investment positions in a conviction and long-term manner and having that thinking is what we frame our investment work around: being positive and optimistic looking ahead in the years to come. This is why we are different from our peer group and why we will always remain so.

Notwithstanding the current economic turmoil with the global pandemic and the resultant recessions inflicting all major economies, if we look beyond these relatively short-term issues, the coming decade could be even more growth oriented, more exciting and more challenging for the status quo companies and therefore more exceptional investment opportunities will arise. The coming decade could be even more rewarding for genuine active, different, and focused portfolio management. We will have the opportunity to create even more value for our clients if we manage to get the allocations to the right countries, sectors and themes. Countries like the USA and China will continue to be winners in such a scenario, with India also thriving. The classification of being a technology company will become meaningless with many companies having technology as the key component of their proposition: for example, retail companies will effectively be technology enabled distribution channels (if they are not already).



As investors we are always aware of managing portfolios in a diversified and focused manner, taking into account all factors. We have a responsibility to do this. We try to invest in a meaningful manner, trying not to predict the future (no-one can) but to see the future in as much as we can now, seeing it in a prism of optimism and growth, seeing it in reality now but thinking 10+ years ahead. Navigating the future today. Whilst we look at past data and analyse our investments very closely, the future we look at is measured in years not months. Two clear winners (there are many others) emerge from this type of analysis in my mind: technology and healthcare. We therefore focus accordingly.

It is only by carefully looking at the future around our philosophy of long-termism and conviction that we will serve our clients and achieve the consistent desired result for them. We do all of this in a non-conflicted, independent, resilient and determined manner. We do not seek to be better than anyone else, we seek to be better for our clients and for ourselves.

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Source of data: Bloomberg, Binary Capital IM.

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