

# Picking winners not an exact science

By **Stirling Larkin**

It was almost 1001 nights or three years ago that Larkin Group first flagged the premium investment opportunity that an international listing of the Chinese e-commerce juggernaut, Alibaba Group, would provide.

We argued back then that this could be the “open sesame” moment and tipping point that would finally connect the still enigmatic China with our global capital markets.

But most, back then, had never heard of this business and dismissed the suggestion that, in the foreseeable future, an internationally unknown Chinese upstart could rival the likes of Amazon, eBay or Google on the global stage.

Such advocacy for an unknown Chinese company named after an *Arabian Nights* tale led some to think that perhaps we were the forty thieves and that our guidance was either misguided, myopic or outright incorrect.

However, those who embraced the opportunity valued this insight and understood that investing in front of a trend positioned them well for the future.

Obviously investing in the future brought risks, but ultra-high-net-worth investors knew first-hand that the alternative, which was to wait until a trend reached its zenith, did not, in most circumstances, deliver desirable returns.

The acumen that these investors had helped them identify and value what were risk-weighted opportunities that yielded them handsomely, in due time.

Unlike the other sciences, economics and finance are not about dealing in absolutes but rather in uncertainties — and those that have demonstrated that they can do so have regularly prospered.

Therefore, with American companies delivering what appears to be sustainable earnings growth heading into 2015, the forward-looking among us would be wise to seek out US businesses and investment opportunities that have yet to reach their acme and are potential market-disrupters along the way.

Tesla Motors is the current champion in this regard and a great example of a commercial game-changer.

After building his wealth and reputation by setting up PayPal during the 1990s, Elon Musk founded Tesla Motors in 2003 to design, mass-produce and sell electric vehicles, firstly in America and then worldwide.

In 2008, the company introduced the first widely available highway-capable electric car and although faced with large commercial and technological challenges, was successful in building both a loyal client and investor base.

Importantly as well, Tesla Nasdaq stock (TSLA:US) was well supported by retail, wholesale and institutional investors and this diversity delivered them resilience to the volatility that other start-ups regularly succumbed to.

Even in light of the elevated price-to-earning valuation, TSLA stock has continued to be a forward-looking investors' darling and a "buy" recommended investment by many banks, brokers and ratings agencies.

Not an investment for all, it is however a prime example of an opportunity to invest in a possible tomorrow.

There are, of course, other markets that have also successfully looked towards the future and provided investment opportunities today.

Israel, for instance, has continued to be a very active hub of innovation in recent times, even during geopolitical volatility.

It is believed that software and IT equipment exports account for 40 per cent of the country's entire economy and gross domestic product.

A good example is Mobileye (MBLY:US), which is an Israeli technology company headquartered in The Netherlands.

Research and development is undertaken in Jerusalem and it's listed on the New York Stock Exchange.

It was founded in 1999 by Hebrew University professor Amnon Shashua, who grew frustrated with the existing technologies and their limitations for commercial and practical use in road safety.

So Mobileye developed optical vision systems that were designed to provide warnings for collision prevention and crash mitigation for domestic passenger cars throughout the world.

Such solutions are pioneering in that, unlike radars or laser scanners, they can detect cars, motorcycles and trucks during both day and night conditions.

It's a technological step forward, while remaining commercially viable. These "pre-crash" systems have been bought by BMW, General Motors and Volvo and continue to enjoy considerable growth potential.

All things considered, the question remains: how do Australian investors pick tomorrow's winners today?

How do you sidestep sub-optimal and poor choices?

One practical approach is to embrace the philosophy of playing the person and not necessarily the ball.

What all of the aforementioned examples have in common is either a single individual or small group of people who proved the concepts and commercialities.

As well as Jack Ma and Elon Musk, almost all of us have heard of Steve Jobs, Warren Buffett, John D. Rockefeller and Larry Ellison.

The idea of identifying diamonds in the rough is far from being a new one. However, in the age of fast data, continual disclosure and the internet, there are new and innovative ways of identifying such diamonds.

These then allow us to better calculate our risk algebra when deciding which are the likely future winners and worthy investments made today.

Some of these techniques are already commonly used by institutional algorithmic traders, sovereign wealth funds and most importantly, "fund of funds" managers.

A "fund of funds" is an institutional investment fund which holds a portfolio of other investment funds, rather than investing directly in stocks, bonds or other securities.

This type of investing is often referred to as multi-manager investment.

Fund of funds managers have become experts at identifying which other individual managers have the "right stuff" and are worth investing in for the future.

This same skill can be employed by Australian investors who wish to identify which entrepreneurs and businesses have the greatest likelihood of future success in any given field. Thanks to the extensive research and analysis provided by the academic world, such skills and techniques can easily be accessed and learnt by expert and layman alike.

What remains central to these decisions is ensuring that those who you believe possess the “right stuff” also fit within your own world view and investment profile.

Taking on even the most calculated of risks and anticipating the future is not for everyone. But for the majority fixated on today, unlocking tomorrow could be as easy as finding that “open sesame” moment for themselves.

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