

Growing wealth in the share market: change, challenges, and disruption



By Danielle Ecuyer, Author and Founder of Shareplicity

Even though we'd like to imagine a world that keeps on going with little change, the past 18 months has shown us that we should always be alert to "expecting the unexpected" or the black swan event.

It's during these periods of volatility and uncertainty that the winning companies cannot only access capital, they can also weaponize their share prices and raise cheap equity or make record-breaking acquisitions.

A look back in history will reveal, I believe, that the early COVID-19 years will have marked a time of great corporate consolidation and change, where the strong became stronger and the weak were unable to grow or adapt swiftly enough to survive.

The unique events of the pandemic-induced recession and recovery have also created a pull forward in earnings and disruption, which is being played out in share markets.

To a large degree, the disruption has been driven by the need and ability of companies to adapt and survive the changed behaviours of consumers and workers, as well as strategic shifts to expand or consolidate competitive advantage.

The same can be applied to the 21st century climate challenges and opportunities of decarbonisation and adaptation.

But what happens when these two tsunamis collide with the investing world?

Let's look at two of the largest recent corporate deals to highlight the changes afoot.

The first is the full scrip A\$39 billion offer for Afterpay by payments and fintech innovator Square. According to Jacqueline D Reses, who co-authored a white paper called *Fintech Revolution*, there are US\$16 trillion in financial listed companies globally that are at risk of disruption.

The race for the hearts, eyes and wallets of Gen Z and millennials has an incumbent financial behemoth such as J.P. Morgan worried. CEO, Jamie Dimon noted in the January 2021 earnings call that we should be absolutely afraid of fintech disruption.

Afterpay has not only been a winning investment, but the likes of Square (Cash App), PayPal (Venmo) and Shopify have also underscored market beating returns for investors.

Commonwealth Bank might be the most expensive Australian bank on valuation but CEO Matt Comyn is not taking the fintech threat lightly and has a continued commitment to invest in new technologies like the StepPay facility.

Another seminal deal is the scrip merger of BHP's oil and gas assets with Woodside for \$19 billion. The transaction reflects BHP's commitment to self-disrupt and reinvent itself. BHP's strategic shift is more socially and environmentally aligned with the 21st century challenges of climate change, as well as seeking a transition to ensure shareholders can participate in a 100-year, growth story in resources such as potash for future food security.

The 52-year-old Macquarie Bank is another case in point. CEO Shemara Wikramanayake recently announced a reduction in future dividends to invest for the future.

"A company's objective should not simply be to grow; it should be to grow such that it creates value. A company creates value when its investments earn a return higher than the opportunity cost of capital."

- Morgan Stanley, *The Math of Value and Growth*

Shares are a financial security representing a percentage of a company which, in turn, is an ecosystem of people and corporate culture defined by leaders.

Too many investors get caught up, time and again, with the quantitative financial ratios – cheap, expensive, low yield, high yield and the narrative of "value, growth or quality" seemingly to overlook the qualitative characteristics that are just as important, if somewhat harder to measure or define.

I aim to keep my investing proposition as simple as possible.

You want to own companies that can grow, adapt, self-disrupt and expand their competitive advantage. These winners will generate both capital and income (total return) for you over time.

Apple, Warren Buffett's largest stock holding is a fine example. Apple has become the poster stock for growth and value or growth at a reasonable value. Probably to the surprise of many experts, Apple continues to capture the lion's market share for smartphones and growth in iProducts.

A recent Morgan Stanley study of its European interns revealed that 74% would purchase an iPhone and 75% already owned one. That is referred to as "customer love" – a strong indicator of a winning company.

The customer loyalty for the hardware products, combined with the evolution in the recurring income services/software businesses, has made Apple the largest listed company globally (US\$2.6 trillion). Be in no doubt, Apple has minted investing millionaires.

The winning companies

The winning companies and wealth creators of the 21st century will most likely not be the leaders of the last few decades. Like the boiling frog, change can seem glacial until it's a waterfall.

As one CNBC commentator mused, are you holding the stock with a "forever" valuation (high for future growth) or a stock with a "melting ice cube" valuation (value trap)?

Staying focused on what makes a quality "forever" investment requires an attention to not only the quantitative but also the qualitative measures and an appreciation that great companies are able to successfully invest not just for the now, but the future, letting you the shareholder reap the returns. 

Danielle Ecuyer has worked in senior positions at some of the world's most prestigious investment firms, advising global investment managers. She now applies her skills and experience to manage her own investment portfolios. Following the success of *Shareplicity: A simple approach to share investing*, Danielle has been a sought-after market commentator and her second book, *Shareplicity 2: A guide to investing in US stock markets* was released in July 2021.