

the Connection

A Quarterly Review

3rd Quarter 2017

THE NEXT "IT"

Jules Verne wrote *Twenty Thousand Leagues under the Sea* in 1870, fourteen years before the first American stock index was created. It was not written conceptually as science fiction and was not meant to be prophetic. It was meant to be a fanciful description of what lies under the ocean and what we still do not know about the planet on which we live. Yet, in this fanciful book, a submarine is powered by electrolysis of water that creates electricity.

Fast forward to 1884, America's first stock index is comprised of eleven stocks; (nine railroads, and two industrial companies). Twelve years later the Dow Jones, the first price weighted index, is calculated comprised of twelve companies consisting of: Tobacco, Cotton, Sugar, Coal, Rail, Lead, Leather, Rubber, Gas, Distilling, Chemicals of which only one still remains...General Electric.

When Jules Verne wrote his novel about a submarine, electricity was a novelty with no real economic value. We highlight this brief history as we embark on our own fancy, to explore where we think the global economy will continue to evolve.

By the early 1920's, the Dow Jones index consisted of 30 companies (as it does today). The new economy included banks and manufacturing along with a heavy component of rail and transportation. The lead and the leather companies were removed and several of the original companies merged or dissolved. Yet, the modernized economy of the Roaring 20's was still very much in infancy.

Post WWII, investing changed radically again. Cold war, globalization, nuclear power, automotive, flight, manufacturing process and the first inkling of modern technology (code-breaking algorithms) came from WWII technological breakthroughs. The next big wave of change came in the 1970's & 1980's where the first technologies that shape today's economic landscape begin to emerge. Microsoft, Apple, Compaq, Gateway, Cisco are a few of the names that start to dominate headlines. In the 1990's, breakthroughs in genomic sequencing and healthcare R&D gave rise to new investments in Bio-technology. The 21st

century brings us cloud computing, AI, CRISPR (something to do with DNA snippets... look it up), quantum computing, private space travel along with limitless unimagined future opportunities.

The highlight here is not that new companies are putting old companies out of business, but that technological advances impact our economy far into the future. There are still companies today that are facing the changing landscape of Ford's original assembly line, as new processes allow for manufacturing with very little physical human input (and thus much lower cost). The most important part of economic transitions for an investor to understand is the incremental effect they have on financial profits. The emergence of new ways to economically participate in markets is always highlighted by margins.

The economy we live in today places a high importance on the value of an idea, legally known as intellectual property. New economic rivalries emerge in Silicon Valley, San Diego, St. Paul, and other cities over resources that were unimportant 30 years ago. Because some of these ideas cost virtually nothing to produce, the value add of implementing these new products is enormous and their margins are much higher than those created by companies still making "stuff".

Rail is bigger than it was 100 years ago, more extensive, more profitable and yet it has gone from 80% of the first stock index to less than 4% today. How do we invest in a shifting landscape where in 30 years, the S&P 500 could be comprised of 50% of what we know of as "Technology" stocks today? The multiple generations of experience and view-points at GenCap provides part of the answer. We are thinking forward, searching for companies that will have a viable business in twenty years, not just predicting their value next quarter. We make good calls and let them run, we make mistakes and cut our losses, we are patient while letting our thesis develop, all towards the goal of investing in companies that we think will be in business in 2037.

We don't want to be exposed to what we don't know, and that is one of the reasons why we hesitate to put a great deal of money into indexes without active controls. A truly

passive approach would give greater exposure to the swings of the global economy, the downswings in Russia, the scramble from public to private of China, the shifting demographic landscape in the U.S. and the continued evolution of the European Union. By 2037, it is our belief that the *Information and Technology* portion of our indexes and economies will be viewed very differently than they are today. You may see hardware, or consumer technology (Apple, Samsung, HTC, perhaps Amazon, Google, and Tesla) as separate sectors. Business related technology may become its own dominate sector (Microsoft, Nvidia, Intel, Oracle, SAP).

What we do know is that twenty years from now, many of us are going to be wondering how we didn't see "it" coming. We know the world economically is changing, and changing quickly, but what is the next "it"? The Baby Boomers exiting the work force and the generation below Millennials entering has major implications for the way the U.S. is represented globally. We learn more every day as we try to understand and take advantage of these shifting trends, realizing there is no one right answer. GenCap looks forward to the changes coming and we focus our investments on the areas we see offering the best developing opportunities for continued growth across our portfolios.

THE ACT OF GIVING

Below is an updated list of some organizations our clients are helping today.

All Local Food Banks

www.sfmfoodbank.org
www.shfb.org
www.foodbankccs.org
www.refb.org

Bloom Marin

www.bloom.org

Maya's Music Therapy

www.mayasmusic.org

Friends of the Urban Forest

www.fuf.net

Guide Dogs for the Blind

www.guidedogs.com

Doctors without Borders

www.doctorswithoutborders.org

The Nature Conservancy

www.nature.org

National Kidney Foundation

www.kidney.org

Guide Dogs of America

www.guidedogsofamerica.com

Golden Gate National Parks Conservancy

www.parkconservancy.org

Fine Arts Museums of San Francisco

www.famsf.org

Canine Companions for Independence

www.cci.org

Alzheimer's Association

www.alz.org

The Foundation for Rotary International

www.therotaryfoundation.org

Wildcare

www.wildcarebayarea.org

Homeward Bound of Marin

www.hbofm.org

Whistlestop

www.whistlestop.org

FINCA

www.finca.org

Sonoma Land Trust

www.sonomalandtrust.org

Friends of the Earth

www.foe.org

The American Civil Liberties Union

www.ACLU.org/Donate

The American Friends Service Committee

www.afsc.org

Amnesty International

www.amnestyusa.org

The Friends Committee on Legislation Sacramento

www.fclca.org

Eastside College Prep

www.eastside.org

Northern Sierra Partnership

www.nothernsierrapartnership.org

American Bird Conservancy

www.abcbirds.org

The Cornell Lab of Ornithology

www.birds.cornell.edu

Mono Lake Committee

www.monolake.org

California Trout

www.caltrout.org

Tahoe Rim Trail

www.tahoerimtrail.org

Ocean Conservancy

www.oceanconservancy.org

Global Fund for Women

www.globalfundforwomen.org

Marine Applied Research & Exploration

www.maregroup.org