Shareplicity 2

A guide to investing in US stock markets

DANIELLE ECUYER

We hope you enjoy reading the first chapter of
Shareplicity 2.
Click to purchase a copy of the book.

Shareplicity 2

A guide to investing in US stock markets

DANIELLE ECUYER

Praise for *Shareplicity 2*

'Danielle Ecuyer's *Shareplicity 2* is a clear and easily understood explanation of what drives share market valuations and how she sees the future of share investing.

'It is based on the simple and compelling proposition that we live in a time of incredible technological change, innovation and disruption, greatly accelerated by the pandemic, and that a lot of the big innovative companies riding the wave of the future are based in the US or listed on stock exchanges there, or form part of many major ETFs. Therefore, if you want to invest successfully and ride the wave of disruption and growth, you need to invest there either directly in shares or through ETFs and equivalent assets in the US.

'Danielle describes the investment landscape clearly and compellingly, and argues her case well. She does not write in a dry and academic tone. You can imagine you are sitting in a room with her talking to you directly.

'For anyone interested in investment, who wants to understand the markets and what drives them, and how to embark on the task of investing yourself (rather than through advisers or fund managers), this is a really worthwhile book.

'Danielle gives readers the confidence and the toolkit to create a sense of their own agency through having a deeper understanding of investment, the markets and how they all work.'

Lucy Hughes Turnbull AO

'Technology has made it easier than ever to invest overseas, and Danielle's book is the essential guide for all Australians on investing in the world's biggest stock markets.'

Equity Mates

‘I’ve been an investor my whole life and have guided my investments in the belief that two of America’s greatest assets are its technology and innovation. Throughout my career, identifying the companies and trends in technology, and the industries where technology can cause disruption and opportunity, has been the key to building wealth from investing in US stocks.

‘Often, investors and academics today are weighed down by concepts and economic philosophies of the past, and their analysis is flawed by these biases. It is refreshing to find a book that accurately gives investors real insights into investing in technology and innovation in the US markets.

‘If you like making money in stocks, *Shareplicity 2* will serve you well. Much of the book covers key ideas for furthering the understanding of which stocks and trends will drive stock prices upward and why. I find myself often in debate with investors wedded to fundamental concepts of economics or stock analysis, yet the world and the way companies are valued has adapted to the changes in society driven by technology. In fact, change happens faster today than ever, providing opportunities to investors who are able to identify these trends and companies that will best capitalize from them.

‘*Shareplicity 2* breaks down the fundamental concepts and changes in the modern markets and systems that many investing books fail to understand or articulate. It also gives investors the fundamentals and facts behind the modern market thinking and valuations. *Shareplicity 2* is certainly a great take for investors who want to understand current US markets and, most of all, make money investing in the future.’

Ross Gerber, President and CEO, Gerber Kawasaki, Inc.

‘In the heady days of meme stocks, online forums, FOMO and TINA, *Shareplicity 2* is a refreshing introduction to the real world of investing in US companies (and it also includes an acronym or two!).

‘Taking a dive into megatrends, risk versus reward and strategy, *Shareplicity 2* walks readers through the macro influences that will make or break future performance while detailing what should form the foundations of every US share portfolio.

‘By referencing other big minds, Danielle Ecuyer empowers investors to take their own journey to investing in the US; she doesn’t tell readers what stocks to buy, though she unabashedly advocates for investing in future-focused companies and explains why.

‘Readers of *Shareplicity 2* will come away with a deeper understanding of how US markets work, why companies are worth what they are (or aren’t!) and how to avoid losing money. Readers should find it easy to put their newly acquired knowledge to good use.

‘Danielle Ecuyer’s insights are a calm inner voice investors can draw on as they navigate the crosscurrents of investing in the US during these unprecedented times, and with interest rates on the cusp of changing course.’

Nadine Blayney, Head of Content/Anchor, ausbiz

‘Investing in the US stock market creates diversity in your share portfolio. It offers access to far more themes and opportunities than are available in any other markets in the world, and which dwarf the opportunities available in Australia. Danielle starts with the macro picture and then eloquently weaves an easy-to-read and hard-to-put down narrative on how to capitalise on current big-picture themes and sectors and, in particular, the secular megatrends that are changing our world.’

Vic Jokovic, CEO, Chi-X Funds

First published in 2021 by Major Street Publishing Pty Ltd
PO Box 106, Highett, Vic. 3190
E | info@majorstreet.com.au W | majorstreet.com.au M | +61 421 707 983

A catalogue record for this book is available from the National Library of Australia

Printed book ISBN: 978-0-6489804-6-9
Ebook ISBN: 978-0-6489804-7-6

Cover design by Peter Reardon
Internal design by Production Works
Printed in Australia by Ovato, an Accredited ISO AS/NZS 14001:2004 Environmental Management System Printer.

10 9 8 7 6 5 4 3 2 1

Contents

1

Ford versus Tesla

The movie

It is Hollywood's grandest night on the film calendar, the Oscars. There is so much excitement around the latest blockbuster from the Netflix stable, *Ford versus Tesla*.

The all-star cast is headed by Christian Bale who plays the enigmatic engineering genius Elon Musk. Rumour has it that this is one of Bale's best performances, and the buzz is electric as the media and crowds wait for Bale and Musk to arrive in the latest self-driving Model S Plaid.

Netflix jumped at the opportunity to produce and distribute this David versus Goliath story of Mr Musk's sustainable energy and transport company, which saved the world from climate catastrophe despite the legacy giants of the 20th century – oil and the internal combustion engine (ICE) companies, as represented by the Ford Motor Company.

The tale covers the 30-year struggle and eventual victory of Tesla corporation to accelerate the world's move to mass transport with electric vehicles (EVs), autonomous robotaxi fleets, semi-trailers and renewable energy systems and battery storage.

The almost cult-like, religious following Musk and Bale have means the Twittersphere is alight with anticipation of the awards ceremony, which is being live-streamed across the globe.

'STOP! Hold it right there!'

'What's all this talk about a new Netflix film?' you ask. 'Danielle has lost the plot! There is no movie; there is no victory; there is no way one man and his vision can disrupt the US$11 trillion automotive and oil markets; it's just not possible!'

The reality

Yes, you are right, there is no movie – yet. And the story, while 20 years in the making, is only just gathering momentum.

Now, before you become concerned that this chapter and the book are just a promotion for Tesla, I want you to take a deep breath and possibly a leap of readerly faith, and continue reading. As you will discover, the story is in the early stages, but it represents one of the most profound disruptive changes you and I will live through.

The story is equally important for appreciating the winds of changes blowing through the US stock markets and how you can invest to make the most of all the differing dynamics of the largest stock indices in the world.

Why the Ford versus Tesla story matters

The story of Ford versus Tesla – or any other ICE manufacturer, such as General Motors (GM) or Volkswagen (VW) – is emblematic of the technological disruption and the change the world is experiencing.

Elon Musk's vision to 'accelerate the development of sustainable energy' was rooted in his concern that the world would reach peak oil. (This theory was viewed as probable until fracking became economically viable and the USA once again assumed the title of the world's largest oil producer, with the shale oil discoveries in West Texas, Permian Basin.)

What started as a risk-adjusted strategy to produce EVs to offset declining oil production has transformed into a race to cease the world's fossil-fuel dependence.

While some would frame the EV upstart as David versus the ICE Goliaths, the truth is somewhat different. Suppose the ultimate goal were to accelerate the world's transition to sustainable energy and transport, as stated. In that case, the goal is on the first leg of achievement, given the flood of announcements from major car-manufacturing companies in late 2020 and early 2021 (Ford, GM, VW and Mini among them) that they would transition away from traditional combustion engines to zero emission technologies.

'Tesla's long-term competitive strength will be primarily manufacturing. This is counterintuitive, but I'm quite confident this will be what happens,' Elon Musk was reported as saying in 2020.

Looking ahead

According to Mr Musk, Tesla will be producing up to 20 million EVs by 2030, up from the 500,000 in production and sales in 2020, and a record first quarter 2021 figure of 185,000. To put that into context, the current leading ICE manufacturers (VW and Toyota) produce around 10 million vehicles annually.

Toyota has around a 10% global market share, followed by VW at approximately 7.5% and then Ford at 5.6%.

Moreover, the current three-year goal is to make the basic Tesla model affordable to the masses, at a price point of US$25,000. With a 400-mile range (around 640 km), this model is pitched at existing popular ICE models, remembering that the ongoing running costs of an EV are lower than those of existing ICE fleets.

The EV industry could be more transformative than most people envisage, due to potential deflationary forces that would make traditional combustion engines just too expensive to manufacture. It is probably too challenging for most of you to grasp such a change now, but combustion engine vehicles are far more complex to manufacture, and they have many more moving parts and components than an EV. So, with the technological advances, the proposition that EVs will displace ICE mobility is not that farfetched.

Tesla has become the catalyst, with its single model roadster produced in 2010, and its public listing at $17 per share giving it a US$1.7 billion market capitalisation.

At US$650 per share in March 2021, post a 5-for-1 share split or US$3,250 pre-split, Tesla has a market capitalisation of some US$650 billion. The value ascribed to the stock is bewildering to most experts and traditional investors. Trading on a price-to-earnings (PER) multiple of over 150x 2021 earnings, it cannot be described as cheap (more about PERs in Chapters 4, 8 and 9). Despite what the market narrative may signal, value is often in the eye of the beholder.

For the diehard investors and fans, Tesla remains undervalued relative to the future earnings growth that they believe is probable. One estimate suggests Tesla could become a US$1 trillion revenue company by 2030, compared to forecast revenue of some US$53 billion in 2021, with the current EV production targets and other ancillary battery, solar and software services for autonomous or self-driving vehicles in the works too. Envisage the concept of a smart car with multiple software services, such as downloadable wireless upgrades of gaming and entertainment features as well as FSD (full self-driving) software. (Apple has achieved the same by taking the hardware of your smart phone and other Mac products and providing software and streaming services through Apple TV and its App Store.) Some analysts have calculated that Tesla's annual revenue can compound at up to a 50% growth rate this decade.

The biggest problem the company currently faces is meeting demand for the EVs while being able to sustainably scale manufacturing capacity within cashflow and funding constraints. As I write, the company is building two new giga factories in Texas and Berlin and expanding its Shanghai giga factory. Another factory in England has been mooted by the media and India is mentioned regularly as displaying some interest in working with Tesla.

There have been more than a few speed humps on the Tesla stockholder journey, including significant production problems with the Model 3 in early 2019; a Twitter storm between Mr Musk and the Securities and Exchange Commission (SEC), and the ongoing battle between the naysayers, short sellers and Mr Musk.

In spite of the eccentric nature of Tesla's CEO, his genius and ability to succeed were evidenced in 2020, when the company achieved the goal of almost 500,000 EV production and sales in a year of lockdown disruption and a pandemic.

In 2020, the Tesla stock price was rerated and included in the S&P 500 index. Some experts have described the success as the weaponisation of the stock price, meaning the demand for the stock at such elevated price levels allowed Tesla to raise billions in cash at very cheap valuations.

The company has some US$19 billion in cash at its disposal and with each new giga factory priced at around US$1 billion, it is hardly surprising those investors with a long-term view accept the proposition that the goal to achieve the 20 million EV production rate by 2030 is possible if not probable. Of course, execution risk remains high, but at least Tesla is not encumbered with old legacy factories that need retrofitting.

Arch rival Ford

This is where we segue to the Ford Motor Company, which is not without controversy either. It might be one of the most famous global brands, and bear the surname of the founding father of mass-produced automobiles, but its journey has been far from wealth-creating.

Ford's loss-making overseas expansion efforts and an overly indebted balance sheet have created a world of pain for investors over many years, culminating in the collapse in demand for new motor vehicles and trucks in 2020. From a high of some US$37 in 1997, the stock traded below US$4 in 2020.

A new CEO, James Farley (formerly COO or Chief Operating Officer), who took the reins at the beginning of October 2020, has committed to reorienting the company away from the traditional combustion engines to electric vehicles and autonomous cars.

Ford aims to invest US$29 billion in electric and self-driving technology through to 2025. It has recently launched the electric Ford Mustang Mach-E and redesigned the best-selling F-150 truck. The company is also relaunching an old favourite, the Ford Bronco.

Investors have taken heart from the strategic shift and, combined with the expected post-pandemic pick-up in the US economy, the Ford stock price has risen like the tide to a 52-week high of US$13 on 15 March 2021. But, even with the rerating, Ford's valuation pales into insignificance at 11x 2021 earnings compared to Tesla's eye-watering 150x.

Even though 2021 marked the watershed year that started the global transition to zero-emission mobility, the transition will be littered with winning and losing stocks along the way.

Ford is emblematic of one of the many major incumbent ICE manufacturers either starting or accelerating on the transition journey, which has coincided fortuitously with a dramatic uptick in economic demand post the pandemic.

Tesla, on the other hand, is just one of the many new EV manufacturers that are evolving in response to expected future demand for zero-emissions vehicles.

Equally, these two companies go to the heart of some of the most debated metrics and investing styles in the US stock markets – value versus growth, or the older DNA cyclical, often termed value stocks (Ford) and the newer DNA stocks (Tesla, NIO and Rivian), in some instances growth stocks, changing the world through innovative technological disruption.

The argument is that growth stocks have been supported over the last decade by lower-for-longer interest rates. Now the tide is turning, with a potential major cyclical uptrend in inflation, and the strongest economic growth since World War 2, post the 2020 depression-like recessions.

Here lies the problem for investors: how can you navigate the big picture macro-economic trends of rising interest rates and rising economic growth against the potentially accelerating impact of technological change? And how will valuations for these stocks change over time?

The example of the fictitious *Ford versus Tesla* movie is symbolic of the rate and speed of technological change that is cutting across every aspect of our lives. Investors face huge challenges when trying to assess whether it is more advantageous to buy the cheaper, older, value stocks such as Ford or back the new company that is potentially changing the world.

Not since Henry Ford began the mass production of his Model T has anyone attempted to transform two of the world's largest industries – energy (oil and renewables) and automobiles (and trucks and semi-trailers) – with new technology, batteries. And no, we are not talking about the Eveready 'bunny' batteries!

Much of Ford's success was achieved when the company was privately owned. It wasn't until 1956, when the company went public, that management had to deal with the demands of stockholders.

Elon Musk, by comparison, has to finely balance the strategic demands and mission of the company with delivering profits to stockholders. One without the other means the value proposition may fail.

Ford and other legacy manufacturers are battling the demons of disruption. (A similar impact was made by the Japanese car manufacturers on the US automotive industry from the late 1970s onwards.) Their challenge is to transition existing factories into new ones, invest in the change and at the same time disrupt the existing bestsellers.

Why invest in the US?

Ford versus Tesla is one example of the old versus the new. The story could have easily been Verizon or AT&T versus Apple, Walmart versus Amazon or Disney versus Netflix. This is where you make the money: if you had seen the potential of Amazon, Netflix or Facebook, you would be sitting pretty. The US has driven global technological change over the last 50 years, and the rest of the world has followed. If this trend is to continue, then Australian investors have to learn how to invest in US stocks.

If I were to give a one-word answer to why I invest in US stocks, the word would be 'innovation' – plain and simple. The US stock markets are not only the largest in the world but they offer investment opportunities in some of the best and most innovative companies.

Of course, the Australian and other developed stock markets, such as those in Europe and Japan, have relevance, but as you will learn, time and again, diversification and risk management are key to growing your wealth over the long term.

Although some investors are giving up on the US and turning their focus to China and other emerging markets, I believe the US stock markets will continue to play a major role for investors and offer excellent money-making opportunities this decade.

The pandemic has ironically given rise to an acceleration in technological innovation, and the macro-economic responses to the 2020 recession are creating a forecast uptick in economic activity not seen since the end of the World War 2. The combination of these two factors creates a 'Goldilocks' backdrop for investors, (an economy that is growing without over-heating and posing inflationary threats), as long as you are equipped with the necessary information to break down and assess the opportunities in the US stock markets.

Shareplicity 2 has been written to help anyone who seeks a greater understanding of how to successfully invest in the US. While you may not completely appreciate the subtleties at this stage, this book will guide you through how US stock markets have evolved to where they are post pandemic and what lies ahead.

Ford and Tesla are the symbolic microcosm of the world of US investing that I am going to introduce you to.

Shareplicity 2 is a guide to help you understand how to invest profitably in the US stock markets, and it also aims to deliver you comprehensive coverage and analysis of the biggest debates and investment themes that are set to continue to dominate investing over the next decade.

Chapter 2, 'US stock markets and the major indices', starts your journey with an explanation of the different stock markets, indices and what they mean for the way in which you can invest. Chapter 3, 'The US now and into the future', dives into how the macro-economic themes have evolved over the last 40 years and how that has potentially shaped the big picture for investors for the future. Don't worry if this is sounding too complex: I dissect the issues and explain them in terms that are easy to understand.

In Chapter 4, 'Valuing the top 20 US giants', you learn about the largest 20 companies in the US and how investors can value the stocks. The walk through the giants will help you on the pathway to understanding the difference between the investing narratives of value and growth, and how the macro-economic big picture can impact on what themes or trends the investing community gravitates towards.

Chapters 5 and 6 take a good, hard look at secular trends and, in particular, the major megatrends and the companies in those sectors that have the potential to mint millionaires over the next decade.

Chapter 7 examines the financial products referred to as 'exchange traded funds' (ETFs) and explores the various avenues through which you can invest in the US (and other overseas markets for that matter) via ETFs. The burgeoning investing style of screening companies based on environmental, social and governance (ESG) criteria is shaping both companies and strategic stock-picking as well as the composition of ETFs in the third decade of the 21st century, and you will learn all about these measures and how they are employed by investors.

With all this new information, I guide you through constructing US stock portfolios in Chapter 8. This chapter looks at how to manage volatility and create baskets of stocks, and I give an overview of all the US sectors in the S&P 500 to help you understand how to asset-allocate across stocks, sectors and themes.

Chapter 9 moves on to discuss some interesting titbits that you need to know to enhance and expand your investing experience. This chapter tackles the differences between valuation metrics and how they are relevant to different types of companies, as well as some unique research into how central bank liquidity and new investment products may be impacting stocks.

All this information is wrapped up in some final thoughts for you to take away with your newfound knowledge of US stock markets at the precipice of technological innovation and change.

There are many different ways and routes to invest in the US stock markets: from differing factors such as value versus growth or old versus new economy stocks; how to manage sectors and themes; and how important the interest rate and inflation narratives potentially are on the way in which stocks, sectors and themes move in and out of favour.

Therefore, as is always the case, you need to assess your own situation and risk tolerance. Before you can invest effectively, it's important to understand what you are trying to achieve, your timescales and how well you tolerate volatile movements in stock prices.

The mantra for *Shareplicity 2* is this: we can't control the stock markets, but we can control how we respond. Knowledge is powerful, as accessing the best information will hopefully allow you to make better and more informed investing decisions. Buying stocks is not about being an expert or being right all the time. Investing is about knowing where to access expert information and how to interpret it to your benefit.

While some of the preliminary information in the early chapters may seem unnecessary, it aims to provide you with a solid base of understanding upon which to make your investing decisions. Many of us like to take the simplest and easiest route, but the US stock market has a habit of reminding us who is boss when we become too *laissez-faire* and don't spend the time understanding our investing goals and how we will achieve them.

As you read the book, remember that investing in stocks is very personal and everyone will develop the pathways that suit them best. I do hope you enjoy the next phase of the Shareplicity journey. For new readers, I hope you take away some insights that you may not have been aware of.

Let the US journey begin!