

RAYMOND JAMES INVESTMENT SERVICES

Megatrend Investing

A megatrend is a driving force of the transformation and development of the human race. Looking at past megatrends helps us understand our present, the identification of ongoing trends gives us the means to anticipate what our future might look like.

From an investment perspective, this is extremely powerful. We ask ourselves- in this future that we anticipate, which assets could perform well and which ones could perform poorly? We then use this to help shape our investment decisions. There is a lot of money to be made by investing today in tomorrow's World.

Some examples of megatrends include: world population growth, resource scarcity, aging populations, the emergence of new economic powers and technological revolutions. One of these revolutions, Artificial Intelligence is the focus of this article.

AI is already entwining itself in our lives. Be it from simply asking Siri or Alexa the time, robots working in the warehouse to despatch Amazon purchases, facial recognition in airports or the remote parking of cars to name just a handful. It is everywhere we look.



In Dan Brown's latest book there is a stark warning of the potential dangers of AI when a supercomputer manages to plot the murder of its owner. Less morbidly, people are fearing that their jobs will be lost to AI. We agree with the latter somewhat- figures suggest that AI will replace 16% of all jobs in the next decade but we believe it will create more jobs than it replaces in other areas. We see AI more as a complement to human endeavour as opposed to a danger.

A decent example of this is within healthcare. There is a shortage of radiographers within the NHS at the moment; some of that gap could be filled by AI as the evidence suggests that, on average, AI is better at reading scans than human radiographers. Similarly, Google's deep learning machine is now accurate 89% of the time in detecting breast cancer compared

to just 73% accuracy from a human pathologist.

As well as healthcare, AI is starting to transform security and defence, construction, manufacturing and the automotive industry (50% of new cars in 2030 are expected to be at least partially autonomous). Another example I like is 'intelligent' food retailing platforms such as Ocado, who have negligible waste with only 0.02% of the total food in the system ending up in landfill whereas wastage rates at traditional supermarkets are huge relative to this figure. The benefits of using AI to cut waste are undisputable and there for all to see.

If the trends are in place for AI to thrive, and we think they are, then the cycles we are seeing now are only in their infancy. Those companies best capturing the opportunities to ride this megatrend will enjoy competitive advantages over their peers. That is where the opportunity lies for us as stock pickers.

So there's no need to hide under the bed from robots any time soon but instead consider there is an opportunity to benefit from the revolution if it goes as we have predicted. I encourage anyone to come in and see us if you are interested in the idea. ♦

8 Berry Lane, Longridge, Preston, Lancs, PR3 3JA
01772 780300 ♦ www.rjiswealthmanagement.co.uk

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