Winners Win

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If Taylor Swift were a publicly traded company, would you invest? Her latest "Eras" tour grossed over $1 billion, making her one of the best-selling artists in history. In some estimates, Taylor Swift has a market cap north of $5 billion. While past performance is never a guarantee of future results, what would be your best guess for Taylor's next tour? We imagine it would be another blockbuster success. Similarly, Michael Jordan won six NBA championships, the New York Yankees have won 27 World Series, and Coach K won 1,202 games. The Matthew Principle (Matthew 25) points out this phenomenon, that the best seem to get better and the worst seem to get worse over time.

The Matthew Principle also applies in business – failure and success compound at the same rate. Companies that take care of customers, treat their employees well and innovate new products and services see their stock prices compound exponentially. On the other hand, companies that fail to innovate and treat their customers poorly ultimately go bankrupt. As technology gets faster and cheaper, the rate of change accelerates. And the beauty of a market-based system is that creative disruption lies around the corner for companies that fail to meet consumer demands. In short, winners find a way to keep winning. Take Elon Musk for example – while a controversial character, it's hard to deny his brilliance. Telsa's battery technology, manufacturing processes, and driverless car technology have the potential to disrupt not just the auto industry, but also the transportation, car rental, shipping, and manufacturing industries. Musk's rocket company, Starlink, is so advanced it could eventually displace phone carriers and internet providers. The long run vision of his SpaceX company is to fly people from Chicago to Toyko in under 2 hours. Betting on a visionary CEO like Musk isn't just a good idea, it's been studied by Harvard Business School and Bain Capital as a legitimate investment strategy (The Founder's Mentality).

Innovative, winning CEOs are similar to top artists and athletes. They see the world differently than other people and find out a way to be the best in their highly competitive fields. Like Musk, Steve Jobs (Apple), Satya Nadella (Microsoft), Reed Hastings (Netflix), Jeff Bezos (Amazon), and Mark Zuckerberg (Meta), created enormously successful enterprises and thereby, billions in value for customers, employees, and shareholders. For example, Amazon employs some 1.5 million people, pays over $100 billion in annual taxes, and is worth $1.6 trillion, larger than the GDP of 164 countries. As investors, we wouldn't want to bet against Amazon just like we wouldn't want to bet against Taylor Swift.

Many professional money managers disagreed with us on this basic concept and missed the massive rally in Big Tech companies the past 15 years. Further, many advised clients to sell U.S. stocks in favor of international companies, a major mistake. Now, they're doubling down saying Big Tech and U.S. companies are overvalued. While price-to-earnings ratios are higher on a relative basis on Big Tech and the U.S. in general, we believe the higher prices are justified. Just because something is cheap doesn't mean it's better, and sometimes things can get a whole lot cheaper on their eventual slide to zero. For example, there's a reason why Palm Beach real estate sells for $50 million and Illinois real estate stays stagnant. Asset prices reflect intrinsic value - more people want to be on the beach as opposed to negative 12 and icy.

At certain points, assets can become over-valued, and bubbles can form. Bubbles form when demand dries up. If we all decided we like cold and ice more than sun and beaches, Palm Beach prices would drop precipitously. The same goes for artificial intelligence, cloud computing, high speed internet access, cybersecurity, driverless cars, and robotic technology. While not every company at the top of the S&P 500 Index today will exist in 30 years, the top 50 companies in the S&P 500 will continue competing for a higher percentage in our portfolios and the best companies will ultimately win. Don't buy the bearish narrative on Big Tech, the U.S. or innovative CEOs, we think the winners will continue winning.

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