

Opportunities along the S-Curve

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THIS VIDEO WAS SHOT BEFORE CORONAVIRUS SWEEPED ACROSS THE WORLD AND VOLATILITY HIT THE MARKETS.

HOWEVER, WE CONTINUE TO BELIEVE IN THE THESIS IT CONVEYS AND WE HOPE YOU FIND IT VALUABLE.

The s-curve is a useful framework for investors to help filter ideas. It's really about finding misvaluations by the market because the market extrapolates in a straight line. Alger looks for companies both early on the s-curve, experiencing high growth, as well as later on the s-curve experiencing positive dynamic change.

So the s-curve is an analogy we use in investing to identify compelling investment opportunities. It identifies the stages of growth of a company's life cycle, from the start up, to the early adoption, to broader market penetration, to eventual market saturation, increasing competition, and eventual decline in the growth of the company.

There are at least two ways to identify investment opportunities using the s-curve. First at the low end of the s-cure, we have high growth markets and in high growth companies that are in the initial stages of introducing either a disruptive product or service. Secondly, at the other end of the s-curve, we have companies that are later in their life cycle and maybe experiencing more mature growth, and here dynamic change is necessary to reaccelerate growth for the company. So this can take the form of a new management team, introduction of a new product or a service, a transformative acquisition, or some other



change that reaccelerates the growth of the company.

Companies that are early on their s-curve experiencing high growth or later in the s-curve experiencing some sort of dynamic change are often underappreciated by the market because the market tends to extrapolate in a straight line. In other words, the market is underappreciating both the size and slope of the s-curve. The inverse is also true; when a company has experienced recent success, the market may over-extrapolate that into the future, and so in this area, we can actually look for companies that might be interesting shorts.

There are at least three factors investors should consider when they're investing along the s-curve. First, how big is the market and how fast is that market growing. Second, what are the competitive dynamics in this industry and are those dynamics changing for the better or for worse. Third, does the company have the management team, the skills, and the incentives to actually execute on that s-curve.

When Amazon introduced its online bookstore in 1994, the market failed to appreciate the size and number of markets it would eventually disrupt. Similarly, Apple actually used to be thought of as a mature boring computer company, but when Steve Jobs introduced the iPod in 2001 and then the iPhone again in 2007, not only did he reaccelerate the growth of the company, but he changed the entire industry. Companies like Facebook, Netflix, and Google were also similarly at one point early in their life cycle on the s-curve.

Today there are many young companies early in their s-curve, experiencing high growth in markets like AI and machine learning, automation, autonomous vehicles, ecommerce, mobile penetration, the internet of things, and many other new technologies. So if you're looking for the FAANG stocks of tomorrow, look for companies that are early on their s-curve today, with competitive dynamics to sustain their position and a management team that knows how to execute.

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