



*"If you want better performance than the crowd  
you must do things differently from the crowd"*

*– Sir John Templeton*

### **LEAR RESEARCH NOTES: MARCH 2015**

The purpose of Lear Investment Management is to have a positive impact by managing the investments of select families, individuals and foundations. We also wish to expand our reach by sharing creative and unique investment ideas with those forward-thinkers who are not in a position to have us directly manage their assets at this time. We view this sharing of ideas as a bridge towards building lasting transparency between investment manager and community. We hope the reader will benefit from the ideas presented and possibly advance their own purpose.

If you are a person others look to for investment advice, or are just interested in getting more out of your own investments, consider Lear Research Notes as an outlet to consume unique investment and philosophical knowledge.

### **Broken Record, Broken Record, Broken Record**

It is estimated the human mind has between 15,000 and 50,000 thoughts a day. Research suggests 95% are the same thoughts as the previous day. The mind gets in a groove, like a record, and keeps playing the same tune over each day. If you want change in your outcomes, you must change your thoughts. We hope some of the ideas presented in this service inspire new thoughts and lead to superior outcomes.

So, enjoy the inaugural issue of Lear Research Notes. A collection of thoughts inspired from great thinkers from BC to present time that focuses on a theme in the world today, thoughtfully narrowing it to the core of its investment implications and finally, offering a digestible and investable takeaway.

### **Code Rage – The Relationship between Life, Automobiles and Technology**

A parent was driving their child to school. The two were in stop-and-go traffic, running late as usual. The parent frustratingly exclaimed: "I hate traffic!" The child made eye contact with his father via the rear view mirror and stated...

*"but Daddy... WE ARE THE TRAFFIC"*

Much can be learned from this statement delivered thru the refreshing lens of a child. There are now approximately 7 billion people in the world. This is double the amount of people that existed when we were the ones sitting in car seats. There is more traffic in our city, more traffic in almost every city, because there are more people trying to get to more places. And it's not just vehicles; an increase in both cell phone and data traffic has made communicating more claustrophobic, as well.

### **Investment Trends and Implications**

In the past few years, the family car has evolved into a computer on wheels - able to work all of your electronic devices, practically park itself, and use technology to control many functions of the car from its tire pressure to its drive train. There are close to a million lines of code (and growing rapidly) in a car. And in addition to the technology in a car, the information a car generates has to be processed and stored somewhere. More technology = more code... It is enough to give us all code rage if not properly understood.

In America, many take the luxury of transportation, on paved roads, for granted. Most middle class families own a vehicle. Many have multiple vehicles, or access to ride sharing apps like Uber, or public transportation. In fact, once a person moves above the poverty line and toward middle class, one of the first items on a short list of agenda items is to improve their means of transportation. They buy cars.

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In emerging countries like India and China, the largest demographic shift in the history of mankind is taking place as the middle class is projected to grow from 2 billion to 5 billion in the next 15 years. This emerging middle class will look to improve their transportation. Human nature is global. The desire to leave the nest/village/farm/small town and explore and experience other opportunities to create a better life is human nature at its finest.

New automobile sales in China have grown from 5.7 million new car sales in 2005 to 23.4 million in 2014. This may seem like a larger number, but it is only 1.5% of the China population. This compared to the 16 million cars sold in the USA (or 4.8% of population) and 2.5 million in India in 2014 (0.2% of population). Altogether there were 78.4 million vehicles sold in the world in 2014 - which means more cars, more car technology, and exponentially more parts.

While the direction is upward, there are often bumps in the road, but the trend is up over time for human advancement.

### **Infrastructure Spending**

Before there are bumps in the roads, you need roads. The governments around the world are committed to building infrastructure for their citizens and their data. The global spending on infrastructure is forecasted to be \$78 trillion globally between 2014 and 2025 (according to PWC). Of course, this is not all on roads, but certainly a trend to be considered for investing. The spending will be led by Asia-Pacific as the region continues to grow. This topic is worthy of an entire Research Note, so please stay tuned for more in depth thesis in a later month.

### **“Under the Dome”**

This recent documentary by Chai Jing brought the terrible pollution problem in China to the world. The increased number of cars, people and factories does create a pothole in the environment. This creates opportunities for electric cars and other green technologies. This also is an important issue and will be a future research note, as the thought of combining investing with helping the environment (or impact investing) fits nicely with our purpose.

### **Other Important Facts Worthy of a Note:**

- The recent drop in fuel prices is beneficial - especially in countries like China and India that import oil.
- The greater adoption of auto lease and finance programs as more consumers leasing leads to quicker new car purchases/leases.
- Higher margins for auto companies as cost of commodities used to construct the auto become cheaper.
- The jobs created by the auto industry will have positive impact on economies.

### **Road Trip - Global Auto Investing in 2015**

Global automobile stocks (measured by the AUTOS – the S–Network Global Automobile Index) have experienced solid appreciation in 2015 with a return of 8.53% ending on 3/25/15. This has brought much focus to the sector since we began our research in 2014. Please note, this trend does not stop with the auto industry. Since drafting this piece, there has been much talk of titans like Apple entering the automobile space – which has the potential to bring the technology sector into an enormously exciting phase.

The onboard computers in our cars are creating the data, but that data also needs to be stored, processed and used. Consider the car insurance industry for a moment: Your personal driving data can, and will, be used to determine monthly premiums based on the time you spend in your car, the terrain you drive and the miles you log.

In the USA and Europe, our love affair with the automobile is cemented, and it looks to continue to grow and mature. We believe that the emerging markets, in combination with the developed world, will continue to drive demand for cars and technology - which will create more jobs and ultimately drive the human race forward.

Next time you're sitting in rush hour traffic, waiting for a YouTube video to load or Instagram to refresh, take a deep breath and understand this: You are the traffic. And that's okay. (And it's especially okay for your portfolio.)

At Lear, we like to remind ourselves of the resiliency of the human spirit. From the invention of the wheel, to cars that run on electricity and drive themselves, the world is an exciting place. So, roll down the window's, turn up the stereo and enjoy the freedom of mobility.



### **ABOUT LEAR INVESTMENT MANAGEMENT**

Lear Investment Management ("Lear") is focused on delivering superior investment returns with careful consideration to risk by identifying global trends. Our focus is on individuals, families and foundations. Lear also partners with Investment Advisors (as a sub advisor) to carefully construct portfolios to meet their client needs.

Both individuals and advisors benefit from this holistic expertise in global portfolio management.

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