



Invest in Picks & Shovels, Not the Mine

As hot investment trends emerge, as they always do, an old adage recommends investing in the companies supplying the picks and shovels to the miners, rather than the gold mine itself.

The current race for a Covid-19 vaccine has investors speculating on who will win the race and the total addressable market, which is possibly everyone in the world.

As portfolio managers, we have seen versions of this movie before, and offer the following historical perspectives:

In 2004, it was clear that the mobile phone would be a dominant investable trend. At the time, Nokia was the largest cell phone producer in the World; Motorola's flip phone was the must have; and Blackberry dominated the emerging smartphone market; while new entrant Apple traded at less than \$1/share.

And while we now know with perfect clarity that Apple won the hearts, minds and pocket books of consumers, at the time it was difficult (if not impossible), to handicap the eventual winner. In fact, it appeared that Blackberry had an insurmountable lead.

By applying the picks and shovels approach rather than betting on the possible winner, we opted to invest in technology providers such as Akamai, Red Hat, Cognizant, and F5 Networks. All companies provided technology or services to optimize the transmission of network data from servers to our hand-held phones. As such, all smartphone manufacturers needed their technology due to the importance of speed for the user.

Looking back, we find that these “backbone” companies outperformed everyone but Apple.

Company	Ticker	11/12/20 Price	12/31/04 Price	Price Return	Annualized Return
Apple	AAPL	\$120.37	\$1.15	10,366.52%	34.03%
Akamai	AKAM	\$190.00	\$13.03	1,358.17%	18.39%
Red Hat	RHT	\$190.00	\$13.35	1,323.22%	18.21%
Cognizant	CTSH	\$76.97	\$10.58	627.33%	13.31%
F5 Networks	FFIV	\$159.74	\$24.36	555.75%	12.58%
Motorola	MSI	\$169.40	\$70.44	140.48%	5.68%
Ericsson	ERIC	\$12.04	\$15.75	-23.56%	-1.68%
Nokia	NOK	\$3.80	\$14.99	-74.65%	-8.28%
Blackberry	BB	\$5.10	\$27.47	-81.44%	-10.06%

*** Red Hat was acquired in 2019 by IBM**

Fast forwarding to 2020, the World anxiously waits for a safe and effective vaccination and treatment for Covid-19 while Pharmaceuticals race to cure previously incurable diseases with groundbreaking new therapies. Who emerges to win these races is being monitored daily.

By applying the “sell the picks and shovels” theory, we opted to invest in Veeva Systems and Simulations Plus, two Medical Technology companies that serve the Life Science industry in the following manner:

Veeva

- Speeds drug development and product supply
- Brings innovative treatments to patients more quickly
- Serves doctors with a website and mobile application providing information about latest products, services, best practices, etc., from life sciences companies

Simulations Plus

- Mechanistic modeling and simulation of laboratory experiments
- Machine-learning-based predictions of molecular properties
- Automated clinical trial data analysis and validation

As such, rather than speculate whether Ely Lilly, Glaxo, Moderna, Pfizer or AstraZeneca would win this race, we have invested in Veeva and Simulations Plus, recognizing that these Medical Technology providers will serve all who enter the race.

By following this path, we significantly outperformed all but Moderna, as we did in 2004 with everyone but Apple.

Company	Ticker	11/12/20 Price	12/31/19 Price	Price Return
Moderna	MRNA	\$85.81	\$19.56	338.70%
Simulations Plus	SLP	\$72.52	\$29.07	149.47%
Veeva Systems	VEEV	\$276.95	\$140.66	96.89%
AstraZeneca	AZN	\$56.97	\$49.86	14.26%
Eli Lilly	LLY	\$141.64	\$131.43	7.77%
Johnson & Johnson	JNJ	\$147.94	\$145.87	1.42%
Pfizer Inc	PFE	\$37.60	\$39.18	-4.03%
GlaxoSmithKline	GSK	\$38.11	\$46.99	-18.91%

In both cases, we believe that identifying the pick and shovel providers provides a more quantifiable and predictable method of playing hot trends.

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