

# New Dawn for Disruptive Innovation

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**Cathie Wood**  
CEO & CIO of ARK Invest



It is said that history never repeats itself, but it does often rhyme.

For Cathie Wood, the intrepid CEO & CIO of ARK Invest, the 1920s which witnessed a period of flourishing innovation after emerging from a traumatic war and pandemic holds similar parallels to what we're experiencing today.

"The world was in the throes of a deadly pandemic back then known as the Spanish Flu as well as the First World War. But what happened was that innovation took off and we saw inflation peaking at 24% in June of 1920 and dropping within a year to negative 15%.

"This eventually ushered the Roaring Twenties which was a great time for the stock market and investments of all kinds because inflation and interest rates were coming down," said Cathie who spoke at an exclusive wealth event organised by AHAM Capital. The investment maverick shared her unique investment philosophy and insights to audiences for the first time ever in Kuala Lumpur last December.

"Back then, it was the invention of the telephone, electricity and automobiles which transformed the world. Today we have five innovation platforms evolving at the same time which has never happened in history," she shared.

These 5 innovation platforms that Cathie is referring to are artificial intelligence (AI), energy storage, robotics, DNA sequencing and blockchain technology which have seen a quantum leap in progress as costs fall precipitously and the underlying technologies mature.

"The seeds of disruptive innovation were planted 20 years ago which ended in the tech and telecom bubble. At that time, many investors were just hearing about this concept of exponential growth and they bought into the dream.

"But the problem was back then, the technologies weren't ready. And if they were anywhere near ready, the costs were way too high.

Cathie cited how major breakthroughs in cloud computing only happened in 2006 with Amazon Web Services (AWS). Similarly, real advancements in AI and deep learning were only realised in 2012.

"In the case of DNA sequencing, when the first whole human genome was sequenced back in 2003, one person's genome can cost up to US\$ 2.7 billion dollars and 13 years of computing. Today it costs US\$ 500 and a few hours of computing power," Cathie shared.

## Innovation Solves Problems

News of how a 13-year-old girl in the UK was cured of cancer after receiving a pioneering gene editing treatment last month is what keeps Cathie passionate about innovation and the spirit of human ingenuity to solve some of the most existential challenges that we face today.

“This is the promise we’re talking about in terms of innovation. And we have so many problems now. When the COVID pandemic swept the world, global markets dropped 30% within just a month and our strategy was down by 46%.

“But from its bottom in 2020 to its peak in February of 2021, our strategy was up by over 360%. This is because innovation solves problems and the companies in our portfolios were key to finding out the sequence of COVID and enabling tests before finally discovering the vaccine.

One of the key factors that Cathie believes will continue to drive growth rates and future returns is also the convergence between the 5 innovation platforms.

“We have S-curves feeding S-curves that would help drive exponential growth. We’re seeing proof of concept through autonomous taxis which is the convergence of three of our major platforms including robotics, energy storage and AI.

“Another example in the healthcare space is multi-omics which is AI and DNA sequencing coming together to help transform healthcare. These are not just going to cause explosive growth opportunities, but are going to help cure diseases through breakthroughs like gene therapy.

## Truth Wins Out

One of the biggest pain points of markets last year were higher interest rates and stubborn inflation which jolted almost all financial assets. However, Cathie holds the view that the Fed is likely to pivot towards looser monetary policy in response to a deluge of economic data supporting an inflation slowdown.

“If you take a look at the yield curve, it hasn’t been this inverted since the early 1980s. That was when we had a real inflation problem caused by events between the 1970s and 60s such as the Vietnam War and the Great Society social programs. That was a 15-year problem that the Fed Chair Paul Volcker had to tackle at that time.

“Today, Fed Chair Jerome Powell thinks he has the same problem, but he does not. This inflation was not built over 15 years but over 15 months, when there was a massive supply chain crunch. Money growth in the US may have shot up to 27% y-o-y in 2020, but it has since collapsed in March and will probably turn negative in the next couple of months.

According to Cathie, commodity prices including oil have already capitulated as the Fed marches on with its tightening cycle. There is also an increase in stockpiles around the world due to overordering as purchasing managers were fearful that they would not have enough supplies for the holiday season. However, she states many businesses now have to slash prices aggressively through discounts to deal with inventory build-up.

Recently, the US consumer price index (CPI) print for November rose just 1% from the previous month and increased 7.1% from a year ago which were well below expectations. “We believe that we’re going to see deflation during the next few months that is going to force Fed to change its spots,” said Cathie.

## Keeping at IT

For Cathie, the conviction in her investment beliefs has only strengthened in the wake of a turbulent market in the past year. “We do one thing in ARK and that is to focus on disruptive innovation. Our clients know that they will get a portfolio full of stocks related to disruptive innovation when invested in our strategy. We’re the closest thing you’ll find to a venture capital company in the public equity market.

“And if we’re right on how dramatically these platforms are going to evolve, then they’re going to transform the traditional world order.

Cathie explains that the status quo which lies in highly recognisable tech names in broad-based benchmarks are now at risk of being disrupted.

“If you look at our holdings, it does not look like any one of these benchmarks which makes it a great portfolio diversifier. Even value investors I’ve met have told me that they have taken small positions in ARK’s strategy to hedge against that possibility of disruption.

Furthermore, the strength of her conviction is also backed-up by a highly rigorous research process by the team at ARK.

“I know we’re doing the best research in the world on this. The way we’re structured - we’re not thinking about sectors or sub-sectors, we’re thinking about technologies that are going to scale across industries and become mass-market opportunities.

“That is how we’ve set up our research team. Our analysts’ responsibilities are not broken out by sector or industry. Instead, they’re broken out by technology.

“So, they are technology specialists and they are also sector generalists. And they are looking for these mass market opportunities that will be caused by these technologies,” Cathie states emphatically.

## Invest in the Future

Learn more about how you can gain access to vast opportunities across disruptive innovation through the Affin Hwang World Series – Global Disruptive Innovation (“the Fund”).

By leveraging on ARK’s open research platform, the Fund allows investors to participate in cutting-edge innovation through high-conviction names.

Visit the link or the scan the QR code to watch the online recording of the event [aham-my.com/CathieWoodInKL](https://aham-my.com/CathieWoodInKL)



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