

Align With Innovation

By Bill Koehler, CFA, President

“A screen door.” That was the answer a late mentor of mine received when he asked his mother later in her life, “What was the most important invention of your lifetime?” His mother was born around the turn of the 20th century, so the question was asked decades ago. Her response is quite profound when put in the context of her day. In the early 1900s not even the wealthiest person in the world, John D. Rockefeller, had air conditioning. In fact, he died in 1937 having never lived in an air-conditioned home.

So, having a screen door was a huge deal for a hard-working mother raising four young boys with her husband on a small farm outside of St. Joseph, Missouri back then. “It let the air in and kept the bugs out,” she is to have said. In pre-air conditioning times, flies were a major nuisance in rural and farm homes, particularly in the summer months. By the early 20th century, screen doors became a common fixture across America, contributing to public health by reducing insect-borne diseases. We can only guess, but I suspect a screen door may have been as important to many Americans then as a smartphone is to people today.

Innovation Nation

America occupies a unique perch in the world. Like no other country, we are organized for innovation. Our Bill of Rights and Constitution

promote innovation. The founders of the United States intentionally wove the elements of the rule of law, economic freedom and individual rights into our Constitution. It is as if the capacity for innovation is hardwired into our collective American DNA.

In an interview with the Wall Street Journal this month, Jacob Rees-Moog, a former member of the British Parliament, makes a similar point. He says that a heritage of common law, freedom of speech and personal virtue produce innovation. To Rees-Moog, technological revolution is less a rupture than a recurrence in America.

He goes on to claim someone who is “fluent in the patterns of the past may be unusually

well-positioned to appreciate the innovations of the present.” The current artificial intelligence (AI) boom, which is the most apt description of the current environment, is simply the next iteration of our country’s ongoing bond with economic progress.

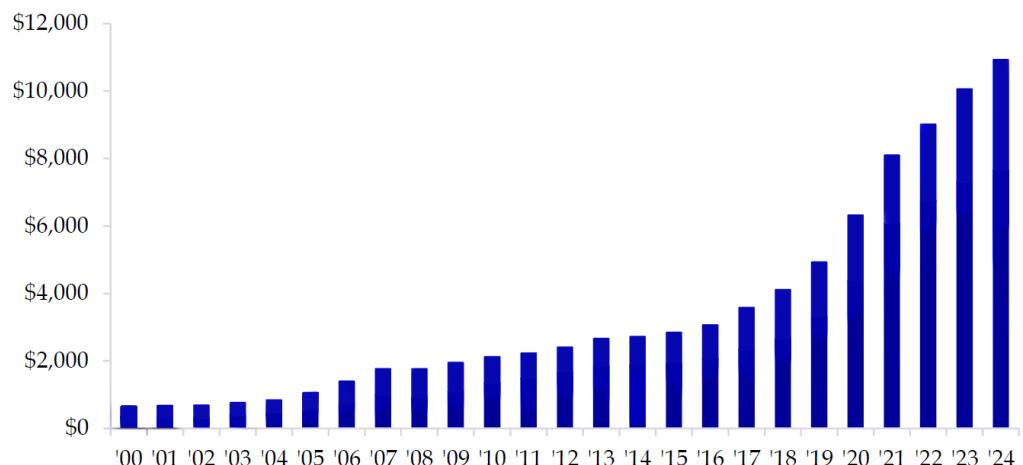
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Capital Markets Innovation

Another example of innovation is occurring in the capital markets. In the past, a larger private company seeking more access to capital had limited options beyond selling shares in the public market. Today, an abundance of new funding sources has emerged for private companies. As the chart to the right shows, alternative sources of capital like private equity funds have proliferated.

Private Equity Assets Under Management (\$BN, 2000-2024)

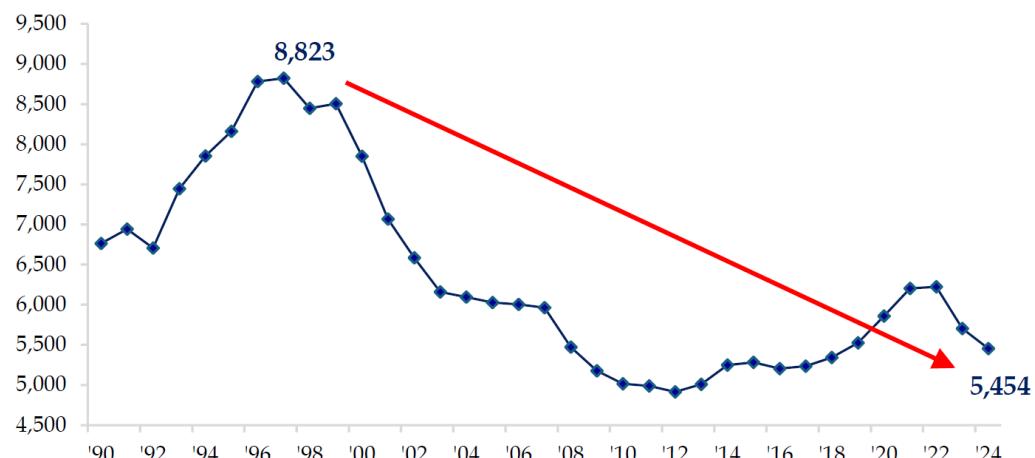


Source: Strategas, Prequin

A consequence of this innovation is fewer public companies in which to invest. As the chart below indicates, the number of public companies has been nearly cut in half over the last 30 years. Firms simply don't have to go public or don't want to go public for financial, compliance or governance reasons.

Instead, huge private companies exist today that heretofore likely would have been public. Companies such as Open AI, the company behind the AI model ChatGPT, and Elon Musk's Starlink, which is a division of SpaceX, are examples. Open AI has an \$830 billion valuation currently. Some shareholders have justifiably benefited greatly from this value creation, but they have not been public shareholders.

Number of Companies Listed on U.S. Exchanges (Sum of AMEX, NASDAQ & NYSE)



Source: Strategas, World Federation of Exchanges, Data as of 12/31/24

The ability of private client investors to invest more easily in the shares of private companies is a trend to be monitored. In December, Charles Schwab

purchased Forge Global, a leading marketplace for transacting shares in private companies, for \$660

million. Schwab's stated intention is to provide its clients with expanded access to private market investments which have traditionally been less accessible to individual investors. Concurrently, we remain committed to one of our long-held guiding philosophies, surveying the investment landscape for appropriate and innovative solutions.

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Stay Onboard

We believe America will continue to lead the world in innovation. As we prepare to celebrate the nation's 250th birthday on July 4th, we should also remember our country's long history of innovation and the ingredients that made it possible. A screen door invented 125-plus years ago and sold in the Sears, Roebuck and Montgomery Ward catalogs (some readers will recall these) of the day is but one of hundreds of millions of innovative examples. Many more will follow in the years and decades ahead. The stock market, particularly the U.S. market, gives long-term investors

a tremendous opportunity to align with this existing and future innovation. We believe this is an enduring opportunity to be confidently seized.

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CURRENT DISCLOSURES

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