

For us, Idea Generation is Not About Identifying a Trade; It is About Change & Faith

Curt R. Stauffer

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Over the years, one question has repeatedly been posed to me: How do you come up with investment ideas? This question is difficult to answer succinctly.

We have a process that cannot be distilled down to an algorithm or screener based on factors. That is not to say that we have not ever tried to streamline idea generation using such methods; we have. I was working to build a stock screener recently, but after much trial and error, I gave up because it produced far too few ideas to be useful.

Our process begins with spotting what we view as pricing errors on the part of the market. I think pricing errors mainly arise because technology has enabled markets to become highly efficient at incorporating new information into prices. Still, markets have been less able to discern the difference between new information that is material enough to change the currently priced in future expectations versus information that will only impact the very short-term performance of a company, for the better or worse. In the latter situation, the market will eventually look past such information or get distracted by something else. Markets tend to react based on a linear extrapolation of new information, and often, such a linear extrapolation proves entirely fictional. Very few things are a linear future path when it comes to human behavior, which underpins public markets. However, a linear assumption is expedient when

confronted with many unknowns and constant change. But as with almost all things in life, change is inevitable.

Our process heavily relies upon a mosaic of information and data sources that lead us to a qualitative understanding of an industry, how innovation drives change, and what companies have a competitive edge or a visionary leader who appears to have a clearer vision of the future than his or her counterparts. This type of assessment is at the top of our idea generation funnel. The process then uses more quantitative measures to narrow the opportunity flow.

I will be the first to admit that I welcome change as a professional investment manager. I embrace change because it inherently produces an environment ripe with opportunity. If there is one word that best characterizes the time we live in today, that word, in my opinion, would be change.

The following is a list of areas of change in which we either historically have closely watched or change that has more recently captured our attention:

- Increasing Pace of Technological Innovation
- Artificial Intelligence (AI)
- Quantum Computing
- Robotics
- Medical Science
- DNA Sequencing
- Cell Therapies
- Gene Editing
- GLP-1 weight loss medicines
- Society & Culture
- Remote work and mobility
- Longevity/Wellness/Active Lifestyle
- Yolo- You only live once mindset, which prioritizes experiences over things.
- Gamification of Everything
- Reimagining/Renewing
- Technological Innovation has outpaced our physical world realities.
- Upgrade the power grid
- Reimagine Energy Sources (Solar, Wind, Hydrogen, LNG, and Nuclear)
- Commercialization of “Off-World” infrastructure and development

- Transportation Infrastructure
- Adaptation of 1950s transportation infrastructure to incorporate IOT (Internet of Things) using cameras, sensors, and automation (airports, roads, bridges, ports, and security)
- Autonomous mobility
- Healthcare Services
- Telehealth
- AI-powered diagnostics
- Robotic Surgery
- Minimally invasive procedures

These are just a sampling of areas of change that continuously impact our lives, work, relationships, and finances.

When I look at our list of active stocks within client portfolios and those on our watch list, almost without exception, these companies drive one or more of the above changes or leverage the opportunities such changes produce.

Our process begins with an insatiable curiosity focused on areas of change and the companies driving such change and/or benefiting from change as it occurs. Change can and does unlock value. Identifying these companies requires filtering incoming information with an emphasis on news and analyzing subject matter related to areas experiencing transformational change. Information comes from curated company and industry news, purposely selected blog content, books, podcasts, interviews, and in-person conversations.

This immersion into change-driven information surfaces many potential investment opportunities. Once an opportunity is discovered, only at that point do we size it up from a price and value perspective. We do not apply a one-size-fits-all approach when we size up an opportunity using more quantitative measures. We look at companies across the market cap size spectrum, from under \$1 billion to over \$1 trillion. We look at a broad spectrum of companies, from both profitable and unprofitable young companies to mature cash-cow companies that buy back stock or pay dividends to deploy excess cash. Each type of company, and all in between, requires a slightly different approach to arriving at an informed opinion on valuation. One consistency in how we look at investment opportunities is the time horizon. We rarely develop an investment thesis on a company's stock with a time horizon shorter than three years. Time is required for the necessary catalysts, allowing the price to reflect value better. As Aswath Damodaran, NYU School of Business, AKA "The Dean of Valuation," said during a podcast interview by Barry Ritholtz's Masters of Business podcast on February 19, 2025, titled Valuation is an Exercise in Faith, "The essence of investing is faith. Faith that your estimated value is the right value and faith that the price will move to value."

Today, we are at the beginning of 2025, the beginning of a new administration in the White House, the beginning stages of the application of AI in our economy and lives, the beginning of the beginning of

commercially operational quantum computers, and the beginning of our lives being transformed by autonomous mobility and robotics/drones. We have never been busier in our search for the investment opportunities that will drive our client portfolio performance for the next 3-5 years.

We are living through a very transformative time in history on many fronts. The changes occurring today will produce compelling opportunities; however, we are always cognizant of the risks that change can introduce to market psychology. We continue to work to develop risk management strategies that we can introduce to portfolios so that we can play offense and defense simultaneously.

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- The Standard & Poor's 500, or simply the S&P 500, is a stock market index tracking the performance of 500 large companies listed on stock exchanges in the United States. It represents the stock market's performance by reporting the risks and returns of the biggest companies. Investors use it as the benchmark of the overall market, to which all other investments are compared.
- The NASDAQ Composite Index is a large market-cap-weighted index of more than 2,500 stocks, American depository receipts (ADRs), and real estate investment trusts (REITs), among others. Along with the Dow Jones Average and S&P 500, it is one of the three most-followed indices in US

stock markets. The composition of the NASDAQ Composite is heavily weighted towards information technology companies.

- The Dow Jones Industrial Average (DJIA), also known as the Dow 30, is a stock market index that tracks 30 large, publicly owned blue-chip companies trading on the New York Stock Exchange (NYSE) and the Nasdaq.
- The Russell 2000 index is an index measuring the performance approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest US stocks. The Russell 2000 serves as a benchmark for small-cap stocks in the United States.

The Russell 2500 Index measures the performance of the 2,500 smallest companies in the Russell 3000 Index, with a weighted average market capitalization of approximately \$4.3 billion, median capitalization of \$1.2 billion and market capitalization of the largest company of \$18.7 billion.