

5 Stocks for Times That Are A-Changin'

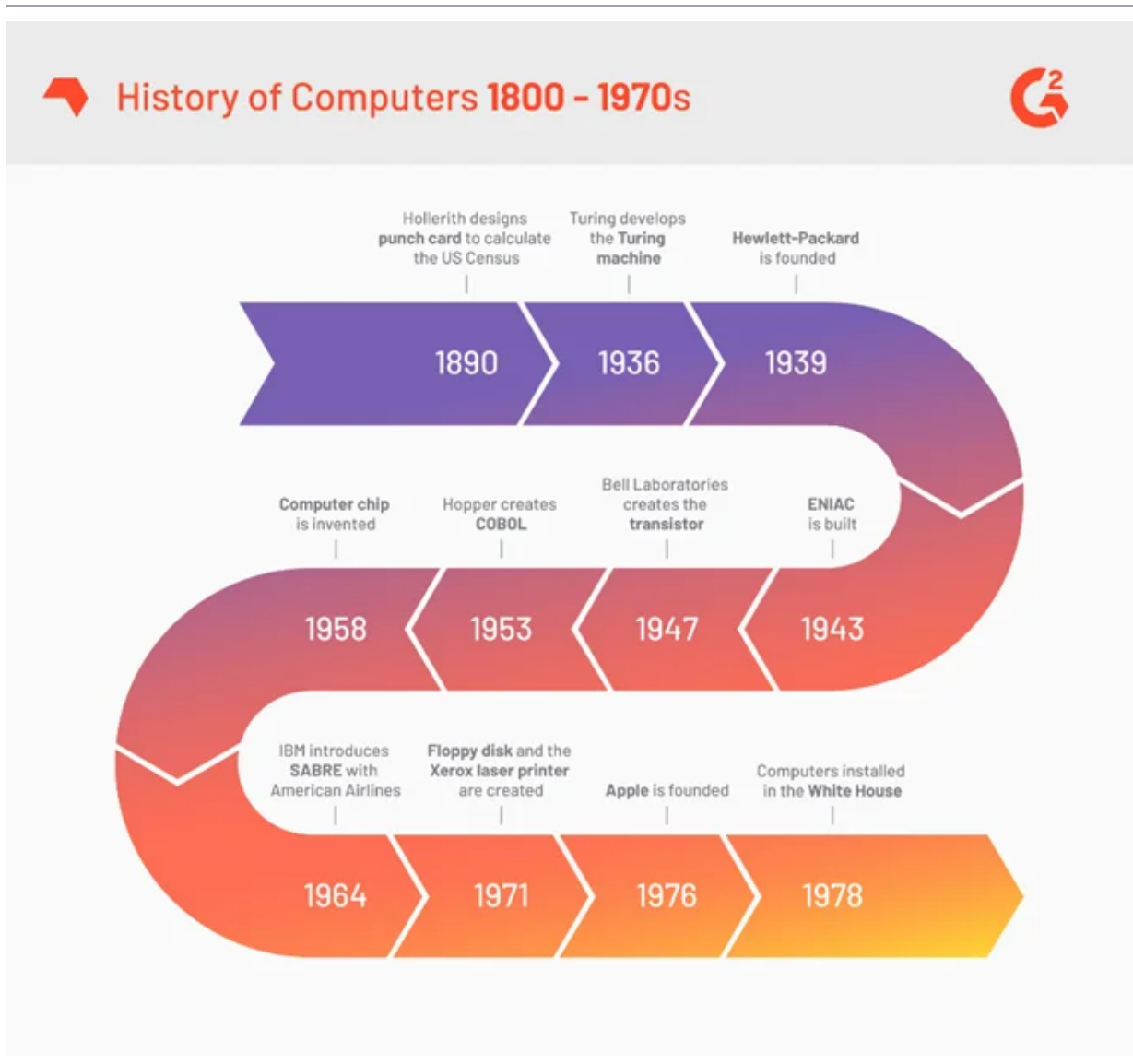
Key Takeaways

- We discuss the growing geopolitical instability in the world and use the recent events in China to teach a crucial lesson about stocks- even the world's largest company isn't safe from risk.
- We discuss the history of the computing revolution and some of the cultural origins of Silicon Valley's commercial revolution. We urge our subscribers to approach shareholder matters dispassionately.
- We provide five stocks that have appeared on at least two of our diverse stock lists. We believe in times of uncertainty leaning on process is one way to mitigate bias and risk.

The line it is drawn,
The curse it is cast,
The slow one now,
Will later be fast,
As the present now,
Will later be past,
The order is rapidly fadin',
And the first one now,
Will later be last,
For the times they are a-changin'
-Bob Dylan, 1964



Revolution is in the air. Iran, China, Ethiopia, Russia and other nations around the world have seen political upheaval and violence. One famous investor said to be wary of thinking, this time is different. But one thing that is always different and always can have an impact on markets is geopolitical dislocations. Often markets handle them better than we might fear—indeed that has been the precedent in history. However, it is wise to understand them and how they can be different. Technology has made authoritarianism easier in some ways, and infinitely harder in others. It's always worth remembering, as we pointed a few weeks ago in [*Management Lessons From the Eminent Dead*](#), that even the strongest and best of us fail—and this includes companies. We have to think of companies more than in just numbers, more than stories, we need to truly understand them. Some of the corporate entities we're here to invest in are also redefining the human experience faster than laws and existing structures can keep up with.



Source: [G2](#)

In January 1984, the debut of one of the most influential products in the short and profound history of personal computing took place. The speaker was a young man whose lieutenant there that day described him as “looking more like a Las Vegas impresario than a computer industry executive.” The young man read a verse of the same song from Bob Dylan that we quoted above. Dylan’s song had become an anthem of youth revolt in 1964. He had written the song in 1963—he played it live the night after John F. Kennedy’s assassination and feared he would be booed or assaulted; instead, the audience cried and applauded. It was released the next year, right as the Berkeley Free Speech movement began. Its broad and profound lyrics were adored by the coalescing anti-war, civil rights, and free-speech groups that became increasingly indistinguishable as time progressed.

However, when the speaker invoked it at a shareholder meeting in 1984, it was no less profound, and the revolution it unleashed was seemingly more impactful on the history of humanity than anything that happened in the socially and politically tumultuous late 1960s, although some discerning minds might disagree. While those protests helped bring an end to the Vietnam War and altered our social fabric, the advent of the personal computer is politically disruptive in an even grander sense. As noble as intentions may have been in the anti-war movement, the drug culture the movement unleashed and the ineffective government response to it currently claims about twice as many lives every year as all US soldiers killed in the entire 20-year American military involvement in Vietnam. For whatever reason, no one is in the streets protesting this ghastly reality. The solutions of the present almost **always** cause future unintended consequences.

The fire of youth fades over time in individual and companies—both mature and are forced to make tough compromises over time in response to emerging challenges. Jerry Rubin, leader of the Youth International Party and a key figure in the '60s protest movement, once told hippies to *kill their parents*, taking free speech for a spin by expressing the natural Oedipian tendencies of younger generations in a shocking way. He taught students to build Molotov Cocktails to assist in their clashes with law enforcement. Years later, however, as enthusiasm dried up and he couldn't earn a living through speaking engagements, he became a stockbroker (who was an early proponent of Apple Computer). His journey from Yippee to Yuppie emblemizes the journey disruptive companies go on as maturation occurs. The mortgage isn't going to pay itself, folks.

Well, You Know, We All Want to Change the World

The computing revolution was profound in its scope, and it was inspired by the upheaval of the 1960s and values espoused by its proponents. One of our favorite concepts to impart to our members is the Keynesian Beauty Contest. We spend our efforts on identifying not our own opinions, but the average opinion, that of "the crowd"—ideally before they even know they'll have it. This requires us to be dispassionate observers, as hard as that can be. We have a lot of new subscribers, and we urge you to suspend other lenses of judgement when thinking about investing. Think as the shareholder. Don't take sides in the emerging Tesla vs. Apple debates as a shareholder, but impassively evaluate the risks and opportunities the situation creates.

History of Computers 1980 - Present



Source: [G2](#)

Thinking solely in terms of Team A versus Team B degrades our rationality as human beings. In some ways, the lofty rhetoric of Silicon Valley seems to us like plastic surgery—it keeps the hot players in the beauty contest and masks their inevitable maturing into establishment companies, but it is often hollow, as the parody HBO hit *Silicon Valley* so humorously [captured](#). That being said, those aging tech titans have wisely invested billions in multiple areas that could conceivably replace their maturing growth drivers, so don't underestimate them long-term either. To be sure, their sanctimoniousness and blind faith in youthful disruption has been partially to blame for the great venture-funded boondoggle of the past few years that is reverberating through different markets, most notably crypto.

Silicon Valley is somewhat politically homogeneous and can seem overly virtuous and hypocritical to many. This doesn't change the reality that they are commercial junkyard dogs who are truly some of the most ruthless capitalists to ever play the game. These companies have become more powerful than any industry in history, and their externalities are becoming more front and center. The veneer of perfection that pervaded their images in the 2010s is long since gone. Skepticism and acrimony are becoming more common with regard to companies in public discourse. And it never helps to have a target on your back from both major political parties either.

When Apple's iconic product introduced *itself* in 1984, and for our purposes, the bow-tie-donning speaker, it started an inexorable course of events that would lead to the corporation being on par with the state itself, and perhaps even more powerful than the state. The internet and social media became integral to politics itself as fundraising efforts once confined to snail-mail campaigns and exclusive get-togethers empowered small donors to make a measurable difference—and Apple's devices were a big part of why and how that happened.

Of course, the parties found that they could use the internet and social media to really juke up their fundraising game by angering people, inciting them to resentment and hatred of their neighbor, and obfuscating and distorting information. Still, in many respects, if not most, the corporation has replaced the state as the primary driver of social and technological change. Back to 1984 though: the speaker amped up the crowd by talking about challenging incumbent IBM for market share. The shareholder's meeting took on a character more similar to a rock n' roll show as the anticipation of the audience built to a fever pitch. And then, the big [reveal](#)...

Hello, I am Macintosh. It sure is great to get out of that bag!

Unaccustomed as I am to public speaking, I'd like to share with you a maxim I thought of the first time I met an IBM mainframe: Never trust a computer that you can't lift!

Obviously, I can talk, but right now I'd like to sit back and listen. So it is with considerable pride that I introduce a man who has been like a father to me... Steve Jobs!

The Whole World Is Watching



Back to the 60's now. As the students and youth inspired by Dylan's ballad of rebellion and change pursued their education, they began a campaign of social disobedience and protest aimed at integration and equality of the sexes and races, ending the war in Vietnam and generally opposing conservative domination of the media. (In a quieter and more socially conservative America of 1967, the Rolling Stones were once forced to change "Let's Spend the Night Together" lyrics to "Let's Spend Some Time Together" on the Ed Sullivan Show.)

Similar efforts at policing speech in the modern era may be equally as ridiculous, albeit in a different direction, but it's important to remember the history of efforts to oppose restrictions on speech. Back then, you had to stand up to the Nixon Administration in court, or even to the batons of Mayor Daly's Chicago PD. A little higher octane than getting your Twitter post removed, but in a truly liberal society all claims of folks having their speech restricted should be taken seriously and properly adjudicated.

Our system is built to absorb and facilitate these struggles; in many countries there is no outlet. There is only censorship, and disobedience is not tolerated. Technology has both empowered free speech and it has simultaneously empowered authoritarian regimes to restrict it and stifle any opposition more effectively.

Back to '68 now. Aside from their political goals, the youth was also conducting what became known as the sexual revolution that balked at such censorship as that experienced by Mick, Keith and friends. The impact of their activism on society was profound. But as this young generation grew into their own, they discovered what every generation does: getting old changes you. They went from rebels to the establishment, and now the pendulum swings back. But the openness, inclusion, and freedom of thought that permeated those special days of the late 1960s would make its way to the commercial side of society. Silicon Valley made the values of the Berkeley Free Speech movement and many of the ideals central to the 60's protest movement's supposed pillars of their corporate missions, and the culture they tried to instill at their firms.



Source: History.net

One of the pivotal moments of the social disorder that accompanied the escalating war in Southeast Asia and building domestic social strife took place at the Chicago Democratic Convention of 1968. The internecine feud between establishment Democrats and the anti-war youth wing boiled over into a regrettable riot and violence on the streets of a major American city. As the Chicago PD started using batons and tear gas on mostly college students, the protestors chanted, "The whole world is watching." Like Dylan's song, it has become a perpetual anthem for protest movements. We hope Xi Jinping remembers it.

And this ties back to how Apple's technological revolution has redefined humanity. That chant during the '68 convention was only metaphorically true. Apple created products that made it literally true. While many might use the computer in their pockets, exponentially more powerful than the onboard computer that got Apollo 11 to the moon, to enjoy cat videos or catch up on fashion and cooking trends, many others have used it to document wrongdoing by authorities. The whole world now, really, is watching in a more literal way than was confirmed when the anti-war protesters chanted it in Chicago.

The Times, They've Changed—And They'll Change Again

"I've been made aware that there's some controversy about signatures on some of my recent artwork prints and on a limited-edition of *Philosophy Of Modern Song*. So, during the pandemic, it was impossible to sign anything, and the vertigo didn't help. With contractual deadlines looming, the idea of using an auto-pen was suggested to me, along with the assurance that this kind of thing is done 'all the time' in the art and literary worlds." -Bob Dylan, 2022

Recently, Bob Dylan became embroiled in a scandal when machine signed items were represented as having been hand-signed by the legend and counter-cultural icon. Like they did with Apple, some have accused Dylan of selling out, or of abandoning the revolutionary mantle he was once cloaked in. The answer is simpler though—when you get old your priorities change, as they should. The realities of the present often trump the idealism of youth as we progress through time and grow up as human beings. Companies are very similar and GAAP results won't always tell the full story. Companies are constellations of humans. There's a lot more there than the ratios.

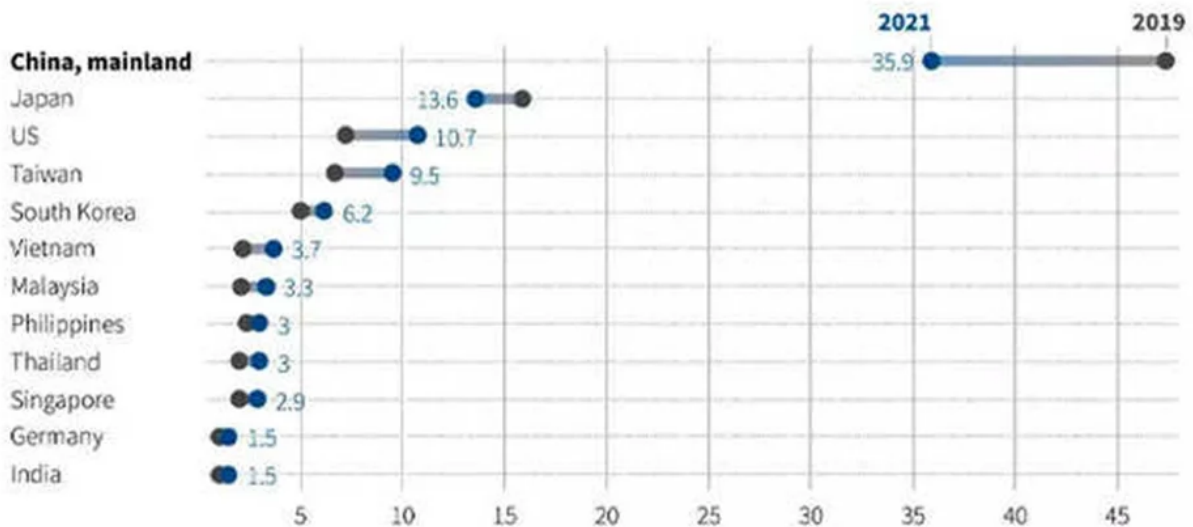
You must discover it yourself through analysis and empathy, so that you can see a company for what it actually is, a collection of very capable but always flawed and biased human beings, not just the narrative in which it cloaks itself or the carefully nurtured numbers it puts out. That's what we try to do in this column, we try to help you do that more effectively. However, the PR-authored statement Dylan released to his fans is certainly of a different tenor than his earlier lyrics, isn't it? The times have changed. Past rebel icons have become establishment—both on an individual level and at a corporate level for trailblazers of the digital revolution.

Too often in equity analysis we think of companies as a group of numbers. We get caught up in narratives of the day and often what we think is wrong. Enron was once considered one of the hottest stocks on the market and a trailblazer of innovation—and in some ways, their leadership on innovation wasn't a complete contrivance even though their accounting did turn out to be just that: a contrived misrepresentation of an entity in much more dire financial straits than it represented to the public.

As for Apple, times have certainly changed too. The young Steve Jobs was a disruptive, against-the-grain innovator who forever redefined the role of the CEO. But his challenger brand has become the world’s largest company—with all that entails. You can’t conduct a personal computing revolution without making some compromises. Quite ironically, perhaps the greatest modern threat to Apple’s recently sterling commercial record is the seeds of another revolution occurring in the country where its supply chain is dangerously concentrated, a country to which Apple has been accused of being too accommodating. But remember that companies are like people—they age and mature. Their prime growth is replaced by steadier rates as they gain market share. It’s not selling out—it’s just the passage of time.

Falling out of favour

Apple's exposure to China's supply chain has decreased since the COVID-19 pandemic began. The chart shows geographical distribution of Apple's top suppliers (%).



Note: Data for every year is upto September.

Source: Reuters reporting | Reuters, Nov. 29, 2022 | By Sumanta Sen and Kripa Jayaram

Are there inherent hypocrisies in a company that still touts itself as a trailblazer for change now that its commercial fortunes have become indelibly tied to the political fortunes of the repressive Chinese Communist Party? Absolutely there are. But as we grow up, we must start making big-boy decisions. One such decision made by Apple, for the better over much of the last decade, but for worse now, was to concentrate their production in China. The moral hypocrisy may infuriate some, as the monopolistic App store practices also might, but at the end of the day Apple is a commercial entity and their ultimate duty is to their shareholders. And at the time, concentrating production in China to bring down costs served the interest of the shareholder. An iPhone that was half of the price, due to it being produced in China as opposed to other locales, outweighed the reputational and actual risk from being so closely tied to an authoritarian regime.

A few weeks ago, Apple was our highest conviction stock because it qualifies for three of our strategic thematic portfolios and one of our tactical portfolios in Granny Shots. This is still true, and the risks of the current situation could very well turn out to be ephemeral, but this situation is a great lesson for those interested in the stock market. There's the Black-Scholes Model, the Capital Asset Pricing Model and complicated quantitative portfolio strategies. Then, of course, there's good old Murphy's Law. Anytime you "can't get fired" for owning a stock, you can assume that it won't be the case forever. We're not sure whether this is a major turning point for Apple, and we'll discuss more about the events in China as we process them fully and learn more, but it is a profound lesson. Whatever you're certain of today in markets, someday (and maybe quite soon) you certainly won't be certain of it anymore.

Stocks For Times That Are A-Changin'

We wanted to explore some history to inform your views as Free Speech is again being litigated on a large scale in this country. Crucial questions are being asked and your personal view may very well cloud your judgment as a shareholder. Suspend pre-conceived notions and approach investing with an open mind. If there's one unifying principle to all our research, it is this easily stated but hard to enact maxim. Indeed, many appear to smell blood in the water and are legitimately raising points about the monopolistic aspects of Apple's business.

But remember, Team A versus Team B thinking compromises your best thinking. We like both Apple and Tesla long-term and both have contributed immensely to the success of our flagship portfolio. We want you to think like a shareholder. Listen to the opposing view that initially irks you and use it to expand your thinking. One of the consequences of modern Technology is that the digital discourse has often been compromised by algorithms that prey on our weakness. Many spaces in the digital world manipulates us like a casino floor does in the physical world. Ask yourself this: are the free drinks at the Blackjack table *really* free?



With this in mind, we want to rely on process. This column has recommended both some real winners and also some real dogs over the years. We're conscious of this—and we own it. If you find someone who only recommends winners be sure to let us know. One thing we have noticed over the years is that when we recommend stocks that are recommended by more than one of our diverse research heads' methodologies, they have tended to perform better than ones that don't. We use multiple independent perspectives and processes to triangulate investing truths and non-consensus insights that get our subscribers ahead of the crowd. For us, freedom of thought speech is essential to everything we do as analysts.

We take giving you the best advice possible with the utmost seriousness. Dylan's song was initially criticized for being too broad—devoid of specific policy recommendations or thoughts on the times. Literary critic Christopher Ricks said of Dylan's song, "Once upon a time it may have been a matter of urging square people to accept the fact that their children were, you know, hippies. But the capacious urging could then come to mean that ex-hippie parents had better accept that their children look like becoming yuppies. And then Republicans..." This criticism, poignant as it may have been, also illustrated the strength of Dylan's lyrical concoction. It was a **blank piece of paper**. Today's potential revolutionaries and protesters in China are using exactly that as their rallying symbol. Their efforts could end up being a minor footnote in an otherwise eventful year, or one of the most significant geopolitical events of our time. As our Head of Research Tom Lee likes to say, *the future is uncertain*. **As a way to mitigate that uncertainty, we are providing stocks below that appear on at least two of our lists.**



Intuitive Surgical (\$ISRG)

ISRG is on both Brian Rauscher's [Dunks](#) stock list and has been flagged by [Adam Gould's Natural Language Processing \(NLP\)](#) earnings analysis. The company is a leader in healthcare technology—specifically, robotic surgery. The company's innovative da Vinci surgical platform allows for minimally invasive procedures that should be picking up as the healthcare system continues to normalize from the pandemic. This company's exciting product hits a particular sweet spot in a Health Care industry riddled with inefficiencies: its product simultaneously reduces costs and improves patient outcomes.

Monster Beverage Corp (\$MNST)

Monster is on our [Granny Shots List](#), Mark Newton's [Upticks](#) and also is on Brian Rauscher's stock list. This energy drink empire has been quite a grower for a Consumer Staples name, and we believe it looks good from several vantage points. The firm is on the Granny Shots list for our strategic theme—The Economic Rise of Millennials, and for a tactical theme of Value/Growth tilt. The company's shares are nearly 70% owned by institutions and we believe it stands out compared to competitors. Mark Newton has seen some positive technical and Brian Rauscher's earnings-focused work flagged them as well. We love it when then happens.

Raytheon (\$RTX)

This stock is on Brian Rauscher's Dunks list and has also been flagged by Adam Gould's NLP tool. Unfortunately, a world as in flux as ours is makes the environment very favorable for this defense manufacturer. Raytheon has some particular strengths that make it particularly useful in the growing struggle against authoritarian regimes and it will likely be a beneficiary of a secular increase in both US and European defense spending. It also has a private aerospace division that would be an enticing business in its own right.

Phillip Morris (\$PM)

This name is on Granny Shots and Brian's Dunks. While smoking has become out of style here in America, and for good reason, much of the world still smokes as if it were 1968. This company was spun off from Altria years ago—and consisted only of its international assets. The company provides some of the world's most recognized flagship tobacco brands and has also invested heavily in less harmful smokeless alternatives. Tobacco is the ultimate consumer staple in a way—demand is relatively consistent despite recessions and the name gives you some cover from cyclicalities at a time when economic uncertainty is high.

Diamondback Energy (\$FANG)

Diamondback Energy has been the star performer of Brian's Dunks list and it was also flagged by Adam Gould's NLP analysis. It's an independent oil and natural gas company that has a large presence in the lucrative Permian Basin. The company has been a sterling example of how to do accretive acquisitions in the Energy industry, and the management team has proven themselves more than capable stewards of shareholder's interests. Our team sees the Energy trade as a secular story driven by fundamental supply/demand imbalance. Diamondback has also been raising dividends and we expect further accretive acquisitions going forward.

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