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FEATURE

A.I., V.R., Blockchain: How to Invest in Hot Tech Trends

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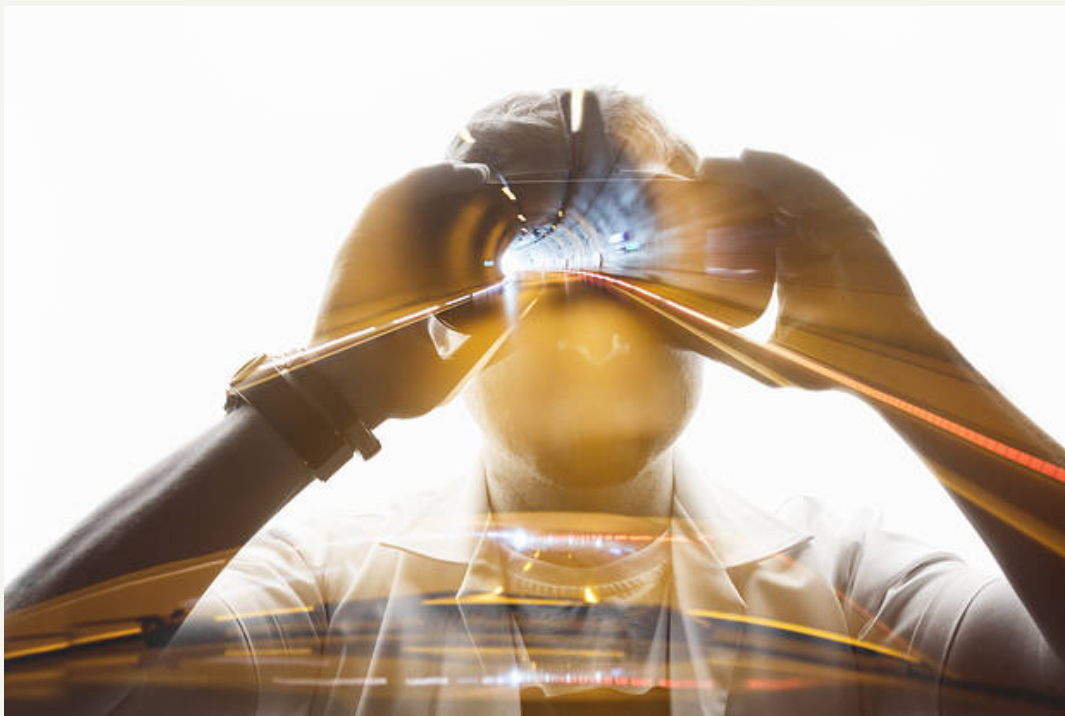


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Investors know there are riches awaiting those who jump on hot trends like artificial intelligence, virtual reality, or blockchain at the right time, in the right way. But that's easier said than done. HSBC thematic strategist Davey Jose is looking at such disruptive technologies based on where they are in their cycle and what that means for investors, using what HSBC calls a "disruption cycle indicator."

Jose and his team identify five different stages disruptive technologies go through, as well as the metrics and indicators that can signal each cycle, so investors can ride the hottest trends without getting burned.

“Early disruption” is characterized by a disruptive technology garnering funding from venture capitalists and angel investors. The “hype mania” phase is when the media is abuzz about a relatively young technology, Google trend searches spike, and stocks associated with the technology soar absent any other factors. Then comes the “backlash” phase—when the innovation pales versus expectations, negative press builds, and the technology draws regulator interest.

That’s followed by the “real application” phase, when the technology is adopted by publicly traded companies, research and development spending increases, the technology drops in price, and merger and initial public offering activity picks up. Finally, there is the “new normal” phase, when the technology generates significant revenue and is no longer seen as disruptive—and newer emerging technologies are vying to unseat it.

Here’s a look at where disruptive technologies fall in HSBC’s paradigm:

AI: The strategists put it in the real application phase at this point and expect its use within industry to grow further this year. “With this in mind, we expect investors to increasingly seek out companies in their portfolio that have become adopters and setting the standards for AI use within their industry,” the strategists write. HSBC favors investing in companies that produce the hardware component and technology needed to support AI, including sensors, semiconductors, and infrastructure, such as data centers needed to house all the hardware and process the data, as well as companies that make 5G, which will be used to transmit the data. HSBC’s screens turn up several robotic companies, like Fanuc (6954.Japan), Denso (6902.Japan), and Yaskawa Electric (6506.Japan), as well as emerging market automation companies like Weg (WEGE3.Brazil), Delta Electronics (2308.Taiwan), and Larsen & Toubro (EQLT.India).

Virtual reality: HSBC puts it at the beginning of the real application phase, which the strategists say in a note means 2018 is a year investors can still be early and be part of the “smart money,” rather than risk chasing a megatrend. But within virtual reality, HSBC puts augmented reality in the backlash phase, in part because the technology to display augmented reality through a glasslike device “is not ready for consumer primetime yet,” the strategists write. Some of the stocks that make HSBC’s screen include Taiwan Semiconductor Manufacturing (TSM), LG Innotek (011070.Korea), and Lite-On Technology (2301.Taiwan).

Blockchain: The strategists say it is exiting the hype stage and moving into backlash territory. But with so many parties running blockchain-based test cases, the strategists say it's possible blockchain could take off toward the real application phase in the coming year. Signs investors should look for: a major government implementing blockchain for state payments or a creating a central bank digital currency—something several countries have discussed. Another sign: If companies “begin to implement their infrastructure for a variety of use cases using the blockchain technology.” That said, the strategists note it is difficult to invest directly in blockchain. Some alternatives are companies involved in creating or likely to benefit from a cashless society. On HSBC's screen: O2 Czech Republic (TELEC.Czech), Globe Telecom (GLO.Philippines), BTS Group Holdings (BTS.Thailand), and internet finance companies like Fosun International (0656.HongKong).

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