

DOWGATE CURIOUS INVESTOR - ISSUE 08

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'Back to the Future'

The world sometimes seems overwhelmingly troubled and pessimistic. We have all read recent accounts of atrocity and impending apocalypse. So, let's try to peer through the gathering clouds of high rates, elevated inflation and international conflict and gaze into the future. After all, we are equity investors, and therefore by definition, optimists.

Not long ago, investing was all about the future. We confidently expected to reside in the metaverse, or a reality brought to life by the internet of things, robo taxis, and drone-delivered food, all paid for and settled in digital currencies. Three years ago, the future was free, but these utopian visions have since become collateral damage to duration's demise. Investors swapped fluffy concepts such as total addressable market (TAM) for the existential realities of debt service ratios. The tangible has replaced the intangible. Our immediate problems now obscure our view of the future.

Despite our fears, the future is still coming. Consumer awareness of Chat GPT sparked a bubble in NASDAQ's magnificent seven, strong enough to push against the headwinds of higher rates and a looming recession. Last week, venture capitalist Marc Andreessen published a 5,000-word essay entitled The Techno Optimists' Manifesto, a eulogy to a technology-fuelled supply-side revolution, including another plea for regulators to leave AI alone.

Andreessen, via his VC firm, Andreessen and Horowitz, has enjoyed returns from multiple shots on goal by investing in dozens of future-facing companies over the last two decades. Unsurprisingly, his manifesto is a presentation on the pre-conditions for a world optimised for his type of investing.

However, while Andreessen philosophises about the future, Elon Musk is busy operationalising it. And he is on the verge of making his disruption of the global automotive industry look like child's play. While most media focus is on the tribulations at X, or quarterly production numbers at Tesla, Musk is making his boldest moves at SpaceX.

Currently sitting on the launch pad at Boca Chica in Southern Texas, SpaceX has "restacked" its Starship space vehicle for its second launch attempt. Fully loaded, this vehicle is 120m tall and 9m wide and can carry 150 tonnes of payload. Musk puts it, successfully getting this monster (the height of the Barbican's 17-floor tower blocks and the width of a tennis court) into Earth's orbit is "within the set of all possible outcomes".

Why should we care about another billionaire's vanity project? Well, put simply, a successful Starship launch collapses the cost of getting out of Earth's orbit by such a magnitude it would represent an achievement comparable to (and perhaps more significant than) the development of the Google search engine. Both Google's intent to organise the world's information and

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SpaceX's to colonise Mars lack clear and obvious revenue models. However, both are motivated by such transformational vision that multiple sustainable and compelling revenue streams are made feasible.

Musk set up SpaceX before he gained control of Tesla, with the express intent of creating a sustainable human colony on Mars and making humanity a multi-planetary species. He has never wavered from this overarching strategy in the last two decades. Have you wondered why the Starship is so enormous or designed to be rapidly reusable (the plan is to launch each rocket several times a day)?

Musk estimates that to achieve his ambition, he must land one million tons of cargo on the surface of Mars. Thus, SpaceX must launch five million tons from Earth to achieve this objective (such is the propellant required to get out of Earth's orbit). To do this, it must launch ten Starships a day for four years.

While he is utterly focused on his primary ambition, consider the technological spin-offs. The Apollo lunar landings might have given us non-stick pans and Velcro. SpaceX-owned Starlink will first displace the internet with its 40,000 low-Earth orbit satellite constellation, then enable low or zero-gravity manufacturing facilities (in orbit or on the Moon) capable of revolutionising chemistry, bioscience, materials science, and nanotechnology. Whether or not Musk achieves his ambition to die on Mars (as he says, preferably not on impact), the consequences of his mission will be far-reaching and profound for all remaining Earth dwellers.

Is Musk a delusional fantasist? It is true that his predictions have often proven overly optimistic. But the value of SpaceX is separate from its strategic aim. Google wanted to organise the world's information, and Musk wants to go to Mars. Such ambitions obliquely spawn enormous revenue opportunities. A Starlink-powered direct-to-device satellite phone might be the first Mars-shot spin-off from which we can all benefit, but it won't be the last. The future is probably closer than we currently think.



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27/10/2023	Value	YTD (%)
FTSE 100	7334.57	-2.64
FTSE 250	16783.09	-12.28
S&P 500	4137.23	8.19
Gold \$/lb	1997.40	8.2
Brent Oil \$/bl	87.93	7.1
Copper \$/lb	3.61	-4.83
UK 10 yr yld	4.61%	22.85
US 10 yr yld	4.85%	25

JACKSON'S CHART - AIM ALL-SHARE (MONTHLY)

An analysis by Jackson Wray



[Image Source](#)

EXPLANATION

Technical View

Since visiting the highs of 2006 in mid-2021, the AXX has declined steeply, losing 50% of its value in almost 2 years, with little respite for AIM investors. The index has broken multiple historical supports, with some strength found at the 800 support area nearly 12 months ago. Following a bounce and retest of the 870 level, the downside continued, with the 800 support area broken without much of a fight. This move has left the AXX close to the critical 600 level. Since the 600 resistance was flipped at the end of 2009, it has proven to be a strength location, with 5 monthly retests in this 14-year period where it has held firm. As we enter a zone home to 3 converging support levels, will this area keep strong again? Or will the AXX take out this crucial level and be drawn down to the 2008/09 lows?

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Fundamental View

Smaller companies like those on AIM have historically provided superior longer-term returns to large-cap stocks and other major asset classes. But, such returns are more volatile in the short run and often require greater conviction and patience to see it through. We are currently having our confidence and patience tested daily. But if the UK stock market repeats the same historical rates of return, £1,000 invested today over the next 25 years would earn £96,000 more in small-cap stocks than from holding large caps (£16.4k vs £112.6k). [Figures from Scott Evans, Paul Marsh and Elroy Dimson in the Numis 2022 Annual Review]. Of course, while past performance does not provide a definitive guide to the future, it can be instructive.

FURTHER READING & LISTENING

- [Elon Musk: by Walter Isaacson](#)
- [The Techno-Optimist Manifesto](#)
- [When The Heavens Went On Sale: The Misfits and Geniuses Racing to Put Space Within Reach](#)
- [Elon Musk: SpaceX, Mars, Tesla Autopilot, Self-Driving, Robotics, and AI | Lex Fridman Podcast](#)
- [Engineering Rapidly Reusable Rockets](#)