Memo to: all clients
From: Jannik Conrady
Subject: First Movers

The last few years have been shaped by technological revolutions. Autonomous robot vacuum cleaners can now reach every corner and even climb stairs. Everyone is talking about AI; a world without the internet is no longer conceivable. Cryptocurrencies have also generated similar hype.

I can't help but think of the following scene whenever I hear about these topics: just before the year 2000 in Idaho, USA. This is where the famous Sun Valley Conference takes place every year, organised by the investment bank Allen & Company. The Sun Valley Conference is a private gathering where the most influential figures from business, media, technology and finance come together. Participants play golf, network and discuss the biggest trends and challenges facing their industries.

Warren Buffett is speaking this year about innovation and investment. He makes it clear that, whilst many groundbreaking technologies have changed the world, they were often not a good investment for early investors. To illustrate the risks and challenges, Buffett cites the invention of the railway, the car and the aeroplane. All were groundbreaking breakthroughs in transport and have all changed the world for the long term, yet for many investors they brought disastrous financial outcomes. Despite their revolutionary nature, a large number of companies went bankrupt. Many of the 'first movers' who attempted to commercialise these technologies faced enormous difficulties in becoming profitable. In the railway industry, competition was extremely fierce, leading to price wars and high costs. Only a few companies survived; most failed. The same fate befell the aviation industry. Although the aeroplane revolutionised transport, many of the early airlines and aircraft manufacturers could not withstand the high capital requirements and extreme price fluctuations. Margins were often too low, and the technological risks too high. So the key message of the day is this: groundbreaking technologies are not necessarily good investments, even if they change the world.

At the time, he wasn't taken seriously at first. An old man who didn't understand the times. Shortly afterwards came the dot-com crash.

You don't necessarily have to become a staunch advocate of tried-and-tested business models with predictable cash flow and a strong competitive advantage, just like Buffett. But how do you view the current trends? Speculative, high-risk technologies, or a pool of undervalued AI companies and opportunities? And how do you assess the economic conditions and long-term stability for cryptocurrencies?

I love technology. At the same time, I can't quite share in all the exuberant enthusiasm. Sure: Meta, ChatGPT and Google are considered favourites in the AI space. But who can say with any certainty that they'll ultimately come out on top, or (when it comes to crypto) that Bitcoin will become the world currency of the future? What formula is supposed to accurately determine the value of this coin?

In that respect, I tend to side with Buffett.

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