Mitch on the Markets

Don’t Ignore Trillions of Dollars in Growth Potential

By Mitch Zacks
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If you are not yet familiar with the phrase, “the internet of things,” get ready – because you will be very soon. This technology/IT subsector is perhaps the fastest growing segment of them all, and it is sure to create plenty of winners and losers as corporations posture for prominence in product development for hardware, software, and data collection.

It is also fair to assume that anytime there are winners and losers created in corporate America, it is likely to affect how investors make decisions. Research, analysis, and understanding within this space is all but required when managing the technology portfolio of an investment portfolio…*and just about every equity investor should have a technology allocation in their investment portfolio.*

One does not have to be a sophisticated investor or an avid researcher to know that technology is, and will likely continue to be the driving force behind corporate expansion, innovation, profit growth, and productivity gains. The key then, for investors, is to try and locate the winners in the space and invest with those companies that are either creating new technology or adapting to it quickly.

Inside the Internet of Things – And Its Growth Potential

The “internet of things” is so widespread in the consumer and investment space that there is already an acronym for it: “IoT.” The basic premise behind the internet of things is one you may already know or use. IoT generally refers to smart, internet-connected devices that are designed to bring efficiency and ease of consumption to your home, car, place of business, and so forth. Whether you’re consuming music, home goods, energy, or securing your home with an alarm system, there is a device available on the market to automate the process and allow you to control it with your voice or smartphone. Some of the more widely known products on the market are Nest (smart thermometer), Amazon’s Alexa, or Google Home. If you currently own a TV that is connected to the internet, then guess what – you’re already part of the revolution.

But IoT goes well beyond these uses. On a corporate level, there is a growing focus on using information collected by sensors and IoT devices to create enormous data sets, which are the equivalent of an analytical heaven for corporations. In many ways, it is this data that ultimately drives efficiency gains. The data can be used to solve complex problems in logistics, manufacturing, supply chains, and services. The more information a company has available, the more likely it will be able to identify and fix problems – boosting productivity and often times profit margins as well. For equity investors, that's a combination we love to see.

The scope of the growing IoT market is enormous. We are not talking about billions of dollars here—we're talking about *trillions of dollars.* Forecasts for growth in the IoT space are eye-popping. By 2020, annual IoT revenues could exceed $470 billion for vendors who sell hardware, software, and comprehensive solutions. General Electric sees investment in IoT companies and industrial development as topping $60 *trillion* during the next 15 years. Again, that's not billion, but *trillions of dollars.* If growth remains on a current or similar path, one might expect a compound annual growth rate well in excess of 10% per year. That's huge.

Bottom Line for Investors

Even non-technology corporations are likely to be affected by growth of the "internet of things" segment. For investors, it is about getting a sense for who can benefit from the technology and ultimately profit from it as well. Many new players will try to enter the field, but there can only be so many winners.

Zacks works diligently to track the companies we think can do well to grow earnings in this and other segments of technology. We believe that the stocks most likely to outperform in the future are those whose earnings estimates are being raised today. Similarly, the stocks most likely to underperform are the ones whose earnings estimates are being lowered today. We use data from Zacks Investment Research to make our assessments. We track over 500,000 current analyst estimates, and we analyze the changes in these estimates to generate a Zacks Rank for each stock. The Zacks Rank, since its inception in 1982, has proven to be a reliable indicator of future stock prices, and we apply it to the decisions we make in Technology and other sectors.

-**Mitch**

About Mitch Zacks

Mitch is a Portfolio Manager at Zacks Investment Management. Mitch has been featured in various business media including the Chicago Tribune and CNBC. He wrote a weekly column for the Chicago Sun-Times and has published two books on quantitative investment strategies. He has a B.A. in Economics from Yale University and an M.B.A in Analytic Finance from the University of Chicago.

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