Mitch on the Markets

Will Robots Disrupt Your Stocks?

By Mitch Zacks
Portfolio Manager

The impending "Robot Apocalypse" is a scary thought, for multiple reasons. Consider these very rational questions many investors ask about the growing wave of automation:

- Are robots and automation going to disrupt the economy in such a way that fewer and fewer humans are needed for labor, rendering our jobs worthless?
- Is it going to wipe out entire industries, like we're starting to see now in the 'big box' retailer space?
- What happens to the people whose jobs are lost to automation?
- Is the broad economy in peril as a result?

For investors, it is – and will be – critical to stay in front of these seismic shifts in the economy when it comes to owning stocks in your portfolio. Ask yourself: are you analyzing companies with full consideration of how automation and Artificial Intelligence (AI) may alter the company's growth and competitiveness? How are *you* staying in front of these rapid changes in business and the economy?

Zacks Investment Management's independent research capabilities powered by our parent company, Zacks Investment Research, give us the tools needed to monitor earnings changes, estimate revision factors, and to understand the inner workings of a company's revenue model. This allows us to determine which companies we believe are capable of the best earnings and stock returns over time.

Our active management has us looking at factors like automation day-in and day-out, which is necessary in today's rapidly changing economy. For example, the "ecommerce" and digital retail revolution, led by Amazon, is already starting to have real economic and investment implications. From an economic standpoint, between the end of 2007 and the middle of 2017, thousands of stores have closed and brick-and-mortar retailers lost the equivalent of 140,000 full-time jobs. From an investment standpoint, stocks of some companies like JC Penney's and

Sears are down over 80% over the last five years, while Amazon shares have soared over +260% over the same period.

The key takeaway here is that as automation and AI grow quickly into the economy, there will be winners and losers as the playing field evolves. Our goal is stay in front of the changes before they happen, and to side with the winners.

A Constructive View: Automation May Actually Add Jobs to the Economy

History offers us good context that we can use to deconstruct the automation issue. Economic anxieties about the impact of automation and technological innovation go all the way back to the 1500's. In 1589, Queen Elizabeth I refused to grant the inventor of a mechanical knitting machine a patent, because she was worried that doing so would put too many manual knitters out of work. Fast forward to the 1970s, when one of the biggest fears in the banking industry was the ATM replacing the need for bank tellers. The reality: tellers expanded their duties into "relationship banking," and could focus more time and attention on selling mortgages, credit cards, and other financial products. From 1988 to 2004, total bank branches soared by 43%.

Over time, the U.S. economy has evolved from an agricultural economy, to an industrialized economy, to a service and technology-oriented economy. Throughout that evolution, jobs have been destroyed, but new jobs have risen from the ashes in greater numbers. Automation commonly creates more, better-paying jobs than it destroys. The reason has been – and is – because companies to date have not used automation simply to produce more of the same item more cheaply. Companies use the breakthroughs to develop new products and services, to grow, and in many cases to hire more people.

Take the ecommerce example. I mentioned earlier in the piece that an estimated 140,000 jobs in the brick-and-mortar space have disappeared over the last decade, but consider the fact that warehousing jobs have soared by 274,000 over the same period and the total ecommerce employment has growth to 401,000 over the same time frame – nearly three times the brick-and-mortar decline. Not only that, but ecommerce jobs tend to pay better (on average 31% more), and employees often receive benefits such as tuition aid, shares of stock, and comprehensive health care.

Bottom Line for Investors

Let me be clear that I do not see the wave of automation, technological innovation, and robotics as a painless path to long-term growth in the economy. These changes can be highly disruptive, and they can cause a great deal of pain in pockets of the economy that are most affected. As investors, though, it is not our job to figure out how to make this transition painless – it's our job to distinguish between the winners and the losers over time. That takes a great deal of research and careful consideration, and it's what we do every day.

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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