Mitch on the Markets

The Power Behind the US Economy and Stock Market

By Mitch Zacks
Portfolio Manager

Much of the market commentary focus these days has been on volatility, with prognosticators sizing up the likelihood of more selling in the weeks and months ahead. Broader media attention has squared relentlessly on Russia. With all the noise, hopefully readers have found some respite in the Winter Olympics.

In hopes of breaking from the negative and/or foreboding news cycle, I thought I would use this week to focus on a seemingly ever-present positive in the U.S. economy: *the spirit of innovation.* It is this spirit of innovation that drives Zacks Investment Management's "pure investing" philosophy…our belief that over time, innovative and well-run companies will potentially be able to generate long-term profits, and that shareholders who invest for the long-term will hopefully participate in the value creation that takes place as a result. As long as the American economy continues to produce innovators and innovations, equity investors should likely benefit from a long-term approach, in our view.

There are examples of paradigm-shifting innovations all of the time – from the creation of the 'sharing economy' by Airbnb and Lyft/Uber, to wearable fitness devices that track health and exercise, to Elon Musk building the first ever affordable electric powered sports car *and* sending one into outer space. Not only do American companies innovate to supply the world with what we believe are better, more efficient products, but they must also do so by necessity in order to maintain pricing power and to drive their market share and investment returns. Failing to innovate often times equates to flat-out failing.

Can Corporate Innovation Fix Health Care?

Corporations also innovate in order to cut or contain costs, which puts health care squarely in the sights of many CEOs around the country. As Warren Buffet recently put it, "*the ballooning costs of health care act as a hungry tapeworm on* *the American economy.*" According to the World Health Organization, the United States has the most expensive healthcare system in the world and is the 37th most effective provider of health care. Health care spending also accounts for 18% of the U.S. economy, which makes it an issue that cannot be ignored (according to Bloomberg).

Enter Amazon, Berkshire Hathaway and JPMorgan. In late January, they announced forming a consortium to try and create a better, more efficient, and more cost-effective healthcare system for their staff. Like many other companies, healthcare costs are threat to their dominance, and with a combined workforce of one million employees it is also a real threat to their profits (according to Bloomberg).

The consortium's focus will be using data, technology, and bargaining power to potentially lower health-care costs. A few floated ideas for lowering costs would be to increase transparency over the prices for doctor visits and lab tests, enabling direct purchasing of some medical items, restructuring delivery systems for drugs and treatments, using AI algorithms to diagnose and spot disease trends, challenging the pricing power of hospitals, physicians and pharmaceutical companies (according to Bloomberg). With the muscle of these three behemoth companies and seemingly no constraints over making profits or appeasing shareholders, innovation could thrive.

Bottom Line for Investors

Of course, not all innovations are useful, or even desirable for that matter. And often times an innovation seems great at the outset only to realize later that it's actually harmful to society or the environment. The key takeaway here is to underscore our belief as to how the world's biggest and best companies are constantly striving to innovate in inefficient industries and sectors, increasingly turning to technological solutions fix broken systems – even in seemingly far gone sectors like health care.

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.

DISCLOSURE

Past performance is no guarantee of future results. Inherent in any investment is the potential for loss.

Zacks Investment Management, Inc. is a wholly-owned subsidiary of Zacks Investment Research. Zacks Investment Management is an independent Registered Investment Advisory firm and acts as an investment manager for individuals and institutions. Zacks Investment Research is a provider of earnings data and other financial data to institutions and to individuals.

This material is being provided for informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. Do not act or rely upon the information and advice given in this publication without seeking the services of

competent and professional legal, tax, or accounting counsel. The information contained herein has been obtained from sources believed to be reliable but we do not guarantee accuracy or completeness. Publication and distribution of this article is not intended to create, and the information contained herein does not constitute, an attorney-client relationship. No recommendation or advice is being given as to whether any investment or strategy is suitable for a particular investor. It should not be assumed that any investments in securities, companies, sectors or markets identified and described were or will be profitable. All information is current as of the date of herein and is subject to change without notice. Any views or opinions expressed may not reflect those of the firm as a whole.

Any projections, targets, or estimates in this report are forward looking statements and are based on the firm's research, analysis, and assumptions. Due to rapidly changing market conditions and the complexity of investment decisions, supplemental information and other sources may be required to make informed investment decisions based on your individual investment objectives and suitability specifications. All expressions of opinions are subject to change without notice. Clients should seek financial advice regarding the appropriateness of investing in any security or investment strategy discussed in this presentation.

Certain economic and market information contained herein has been obtained from published sources prepared by other parties. Zacks Investment Management does not assume any responsibility for the accuracy or completeness of such information. Further, no third party has assumed responsibility for independently verifying the information contained herein and accordingly no such persons make any representations with respect to the accuracy, completeness or reasonableness of the information provided herein. Unless otherwise indicated, market analysis and conclusions are based upon opinions or assumptions that Zacks Investment Management considers to be reasonable.