

BEYOND OIL

How to profit from the
\$6 Trillion Exponential
Energy Disruption



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How to profit from the \$6 Trillion Exponential Energy Disruption

Since 1990, there have been five massive opportunities across five key industries that made early investors incredible wealth.

...Gains like 27,091%, 48,661%, and even 11,531,662%

There's a pattern to these previous five opportunities which leads me to believe we are on the cusp of the next one...

*This **sixth opportunity**, like the first five, could allow early investors to reap life-changing returns.*

Nick O'Connor
Publisher, Southbank Investment Research

Fellow investor,

There's a simple secret behind some of THE biggest stockmarket winners in history.

Today you're going to see what it is... and why there has never been a more important time than 2020 to understand what it is and how to apply it to the markets.

You see, there have been five massive wealth-creation opportunities across five key industries that made early investors insane wealth. We're talking gains of 2,255%, 27,091% and 48,661% if you got in at the right time and held long term (until today).

Each one of these opportunities has been fuelled by the same extraordinary set of circumstances. It's worth us examining what those circumstances are today.

If we're to even shoot for gains like those, we need to understand how they occurred in the past. We need to consider the risks involved in making gains like that. Most of all, we need to remember that extraordinary returns require extraordinary circumstances.

So let's look at just *how* extraordinary the five previous exponential disruptions we've seen have been. To explain why, I want you to do something unusual...

Imagine it's 1990 again

In some ways, your life is very similar to today.

You spend time with your friends and family. You read books. You read the newspaper to find out what's going on in the world. You buy things from shops. You watch films, TV and listen to music.

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None of these observations is earth-shattering, I'll grant you. But I'm setting up a much more profound point.

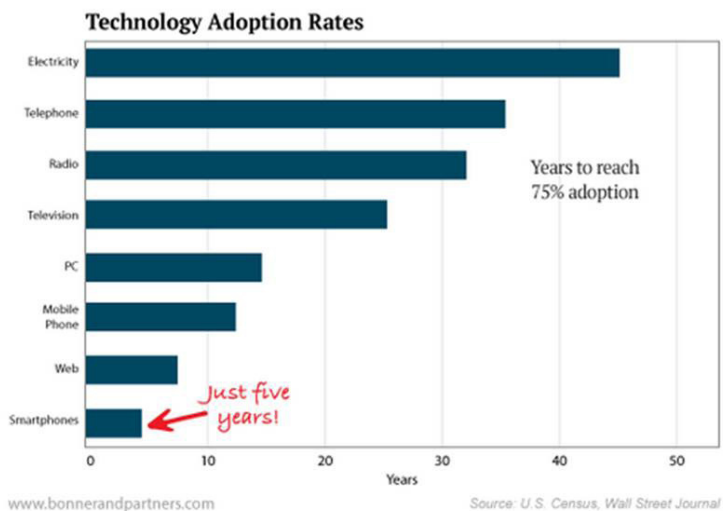
Which is this: between 1990 and today, the fundamentals of how we live our lives haven't changed, **but the methods, technology and businesses that supply the things we want have completely changed.**

That's because five major industries have been disrupted by exponential technology. A big part of this is the internet. But really the change goes much deeper. The exponential trend in computing speeds, known as Moore's Law, has rewritten the laws of business.

Or, to put it more visually, it's the reason that everything in the first picture below can now be done at a fraction of the price by the tiny piece of technology in the second.



But it's not just technology itself that's speeding up. Our responses to it are accelerating. People are adopting technology at an accelerating rate, as this chart shows:

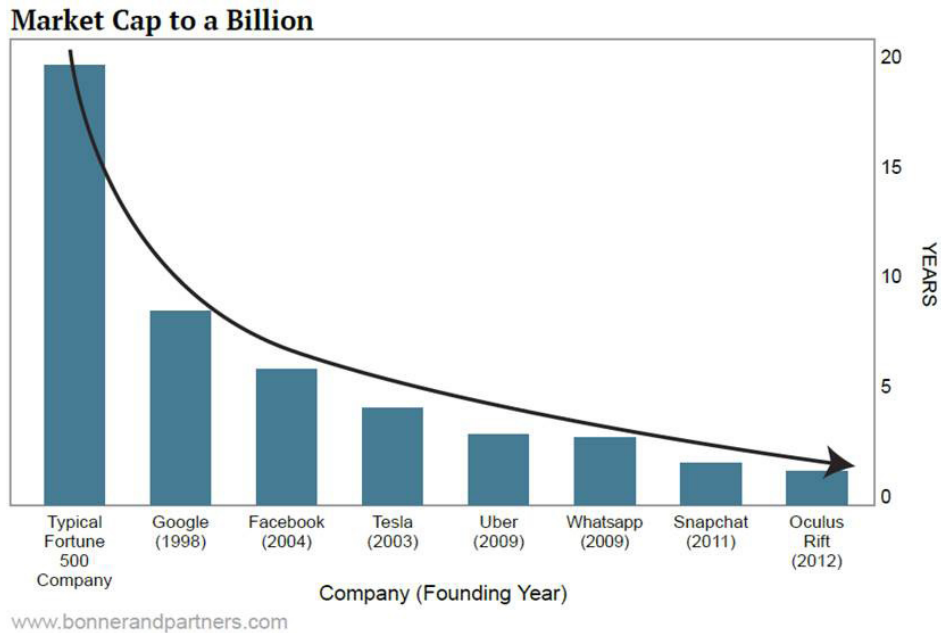


Source: U.S. Census, Wall Street Journal

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If the world is on a relentless march of progress, we're marching fast – and we're speeding up. This in turn is translating into accelerating *financial* results, as demonstrated by the speed at which companies are growing from zero to a \$1 billion market cap:

FIGURE 3



Source: *bonnerandpartners.com*

Ultimately, exponential technology comes down to this. It means that any business which builds its business model around exponential technology can provide its goods and services **faster, better, cheaper and more efficiently** than a non-exponential business.

That has had a profound impact on our lives... and created enormous wealth for investors.

Consider this...

Amazon sells the same products as high street shops...

But charges far less, provides anything you like without you leaving the house and gives you more choice.

That's because Amazon created an **exponential disruption in the retail market**.

Another example: Netflix provides TV series and films, just like Blockbuster did in the 1990s.

But it gives you more choice and is MUCH cheaper. That's because of the **exponential disruption to the entertainment industry**.

The people we talk to and what we say to each other hasn't changed. But instead of writing letters, making expensive long-distance phone calls or looking businesses

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up in the Yellow Pages... we can now communicate instantly with each other and with businesses we're interested in, for free. That's because Google brought about an **exponential disruption in the communications industry**.

Uber provides transportation, just like black cabs did in the 90s...

The difference? Instead of standing outside in the cold hoping to hail a cab, then paying out your nose for a driver who spent two years training in "The Knowledge", the driver pulls up within a couple of minutes. They have your destination programmed into their maps app and get you there just as quickly for a fraction of the price, all paid through the app so no haggling or cash required.

This is an **exponential disruption of the transport industry** – so much so that many taxi unions around the world are trying to ban it!

Finally, cryptocurrencies allow people to send money to each other. Just like banks were able to do for you in the 90s.

The difference – now, you can send as much or as little money to anyone in the world, for a fraction of the cost of an international transfer, essentially instantaneously, without needing a middleman or any trust between the parties.

This is such a **massive disruption of the financial industry**, that it's caused many banks and even whole countries to attempt to ban cryptocurrencies altogether!

How to turn £5,000 into £121 million (and why no one did)

Now, here's where it gets really interesting for us as investors...

Each of these exponential disruptions had major effects on the markets. They bankrupted many incumbent, inefficient non-exponential business (Blockbuster, scores of high street shops, etc).

And they fuelled the rise of the biggest stockmarket winners in history:

An early investment in **Google** in September 2004 would have netted you a +2,255% gain.

Picking **Amazon** in November of 2001 would have given you a +27,091% gain.

Picking **Netflix** as late as June 2002 would have still given to a +48,661% gain.

And a 2010 punt on **bitcoin** would have returned an astonishing +11,531,662% gain.

Let's do a thought experiment. Imagine you'd put £1,000 into each of those plays.

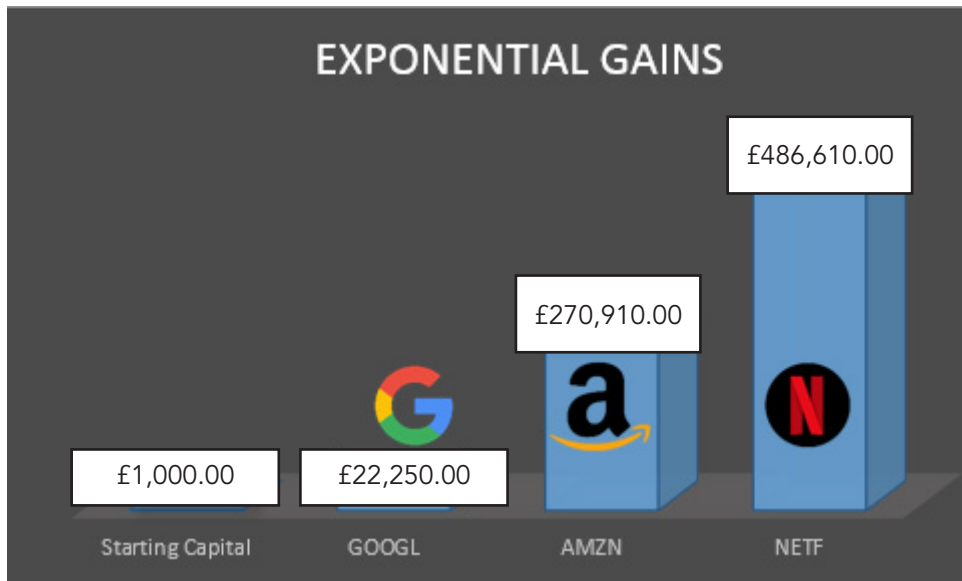
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I know, I know! It's highly unlikely anyone would have done this. But let's look at the numbers nonetheless. We're trying to measure the potential of this kind of exponential phenomenon...

Your initial £1,000 grubstake in Google would be worth £22,550.

A £1,000 investment in Amazon would be worth £270,910.

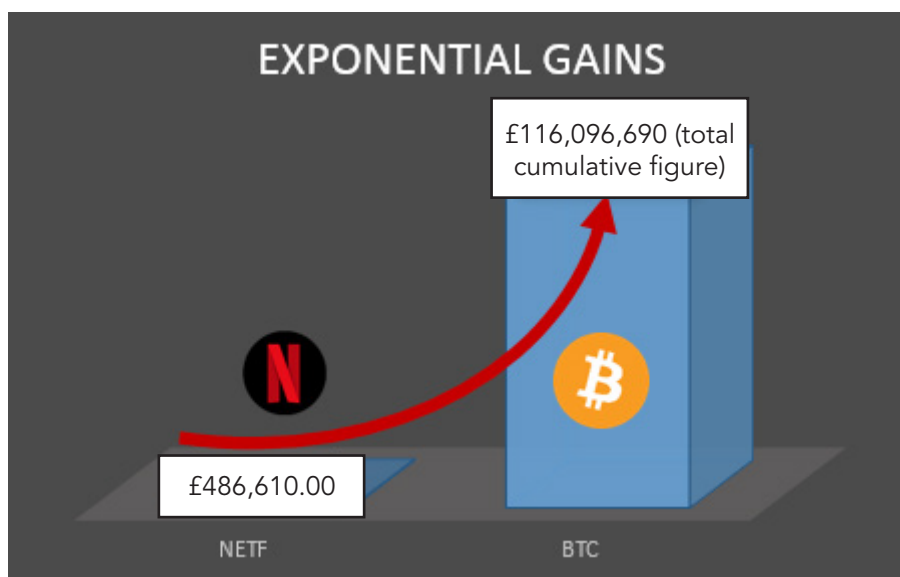
Your £1,000 worth of Netflix stock would be worth £486,610.



And another £1,000 into bitcoin in 2010...

That would now be worth a staggering £115,316,620!

... Meaning your total cumulative gains would add up to **£116,096,690**.



You'd have to say... that's incredible money.

That doesn't mean every exponential disruptor won. They didn't. Many failed. But those that won made such incredible returns that it'd be foolish to ignore them... understand them... and try to figure out how to predict the next one.

Of course, the real kicker is this. In the 90s, no one knew what exponential technology (mostly computing and the internet) would do to retail, entertainment, communications and so on. It was an unknown. You could argue it took incredible vision to see what would happen and invest accordingly. And the risks involved were pretty huge – getting it wrong could have resulted in big losses.

We'll talk more about the risks involved with this kind of investing as the week goes on. They are significant. As with all investing, your capital will be at risk.

But as time has gone on... we've had increasing, and overwhelming evidence of how this process plays out. And that's what our **Exponential Energy Summit** is all about. The next major disruption is upon us, in a market worth \$6 trillion.

We'll come to that in a second.

First, let's dig into exactly how this phenomenon unfolds “on the ground”...

Big Market + Big Disruption = Big Money

Writing in Newsweek in February 1995, Clifford Stoll said:

Visionaries see a future of telecommuting workers, interactive libraries and multimedia classrooms... Commerce and business will shift from offices and malls to networks and modems...

Baloney... The truth is no online database will replace your daily newspaper...

Nicholas Negroponte, director of the MIT Media Lab, predicts that we'll soon buy books and newspapers straight over the Internet. Uh, sure...

Then there's cyberbusiness. We're promised instant catalog shopping—just point and click for great deals. We'll order airline tickets over the network, make restaurant reservations and negotiate sales contracts. Stores will become obsolete. So how come my local mall does more business in an afternoon than the entire Internet handles in a month?

Now, it may seem obvious to us in hindsight, but to the writer at the time, he didn't see the extraordinary shifts that were about to take place.

That's because these shifts – called “*disruptions*” – are almost impossible to predict... until they're already happening.

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And that's exactly how they overturn major industries – because established competitors simply don't see them coming, until it's too late...

Since 1990, there have been five massive opportunities across five key industries. The pattern for these revolutionary gains is always the same, just two crucial factors:

1. A **large, inefficient, slow-moving industry**
2. A *disruptive business model* that delivers the same service **better, faster and cheaper**

The mechanism by which the internet has catalysed these disruptions is fairly simple. As internet speeds have increased and storage costs plummeted, the marginal cost of the transfer and storage of data has effectively been reduced to zero. This means that all manner of goods and services that previously had costs associated with their production and delivery can be provided essentially *for free*.

This has meant catastrophic losses and bankruptcies amongst existing companies entrenched in the old business models. This has also, somewhat paradoxically, seen the rise of multi-billion-dollar giants who have spotted the trends early and adapted what they sell and how they sell it to the modern consumer, who expects essentially unlimited choice and freedom at a fraction of the cost.

Over the series, we'll be sharing insights into the coming final disruption – where the biggest industry yet to undergo this upheaval will be affected by exactly the same forces that have transformed the previous five. Because of the cumulative nature of these disruptions, plus the massive size of this sixth industry, we're calling it the *exponential disruption*.

To understand the scale and potential gains of the coming exponential disruption, you have to first understand the previous five...

The first disruption

The first disruption was in **communication**. Companies like Google and Facebook created easy-to-use communication platforms that made them multi-billion-dollar tech giants, and made telex, fax and “snail mail” obsolete.

One of the key factors of a disruptor is that they deliver something ten times better for a fraction of the cost. This is certainly true when you remember the inefficiency of hand-writing a note, buying stamps, going out to post it, and waiting a few days for it to be received. These days, all that and more (eg, send images and even whole books) is replaced by a Gmail account which is completely free.

Google's top management team has largely been recruited from engineers rather than corporate execs with MBAs. This has instilled a spirit of experimentation which has led to fast-moving innovation and disruption, despite the large scale of the organisation. For

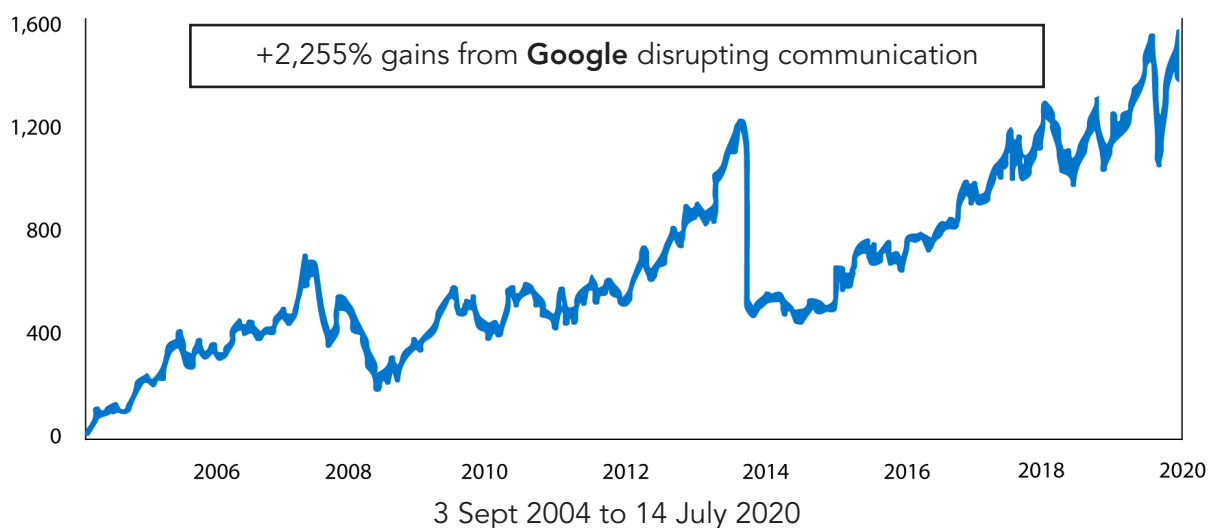
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example, Google employees were famously given 20% of their time per week to pursue creative activities based on their interests and passions, leading to innovations such as Gmail and AdSense (which now accounts for some 25% of the company's revenue).

Their ability to quickly test ideas, use massive amounts of data to get results, and then mercilessly kill off losers (for example Google Desktop, Labs and Reader) creates a Darwinian evolution of killer apps that quickly disrupt industries, out-manoeuvring corporate juggernauts who simply can't adapt quickly enough.

As well as the disruptive effect of Gmail, witness the total destruction of the entire satnav industry via free Google Maps. Next up – with its acquisitions of Motorola and HTC's Pixel – could be the entire smartphone sector...

On its IPO in 2004, many investors and pundits scoffed at its valuation of \$24 billion and share price of \$85. Now, with previous rival Yahoo (then valued at \$39 billion), along with 90s rivals such as AOL and Netscape essentially dead in the water if not extinct, you have to say it was a pretty good deal!



In fact, betting on this disruption would have netted you **over 2,250% gains**, with Google (now technically Alphabet) valued at \$1 trillion as of January this year.

The second disruption

The second disruption was commerce. Companies like Amazon became trillion-dollar behemoths by crushing bricks-and-mortar retail outlets like Barnes & Noble.

Jeff Bezos chose books as his “beachhead” precisely because it was an easy target for disruption. There were no book giants with more than 15% market share. Publishers hadn't (and still haven't) adopted technologies that would increase efficiency. And the product itself was identical worldwide, easily stored indefinitely, and in demand to the tune of \$1 trillion.

Bezos' commitment to disrupting entire retail sectors is encapsulated in his "Day 1" philosophy.

Here's a starter pack of essentials for Day 1 defense: customer obsession, a skeptical view of proxies, the eager adoption of external trends, and high-velocity decision making.

Staying in Day 1 requires you to experiment patiently, accept failures, plant seeds, protect saplings, and double down when you see customer delight.

... The process is not the thing. It's always worth asking, do we own the process or does the process own us? In a Day 2 company, you might find it's the second.

The outside world can push you into Day 2 if you won't or can't embrace powerful trends quickly. If you fight them, you're probably fighting the future. Embrace them and you have a tailwind...

These big trends are not that hard to spot (they get talked and written about a lot), but they can be strangely hard for large organizations to embrace. We're in the middle of an obvious one right now: machine learning and artificial intelligence...

... Day 2 is stasis. Followed by irrelevance. Followed by excruciating, painful decline. Followed by death. And that is why it is always Day 1.²

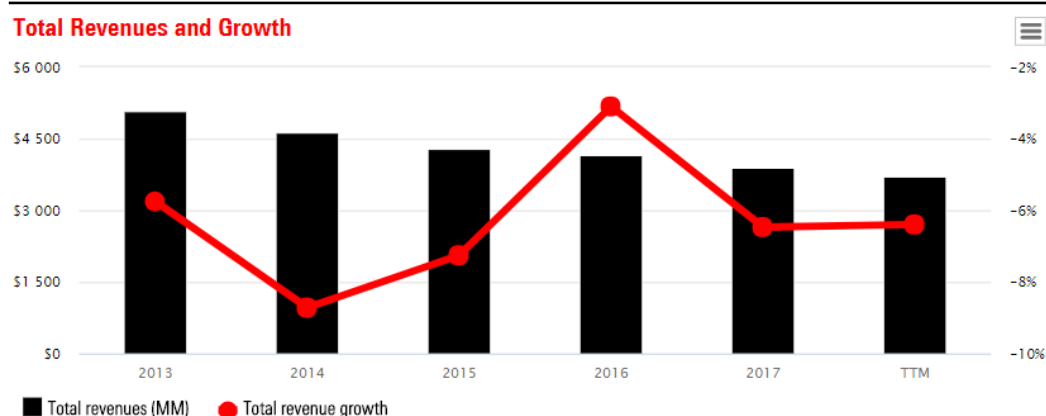
Bezos used the beachhead of books to expand into almost all retail sectors, most recently into fresh groceries through Amazon's \$13.7 billion acquisition of Whole Foods.

When Amazon started, it did less volume in a year than one Barnes & Noble superstore did in a month.

Since then, Barnes & Noble hasn't posted a revenue increase in years, can't compete against Amazon's prices, its online platform, or its Kindle (vs Barnes & Noble's "Nook").

Barnes & Noble

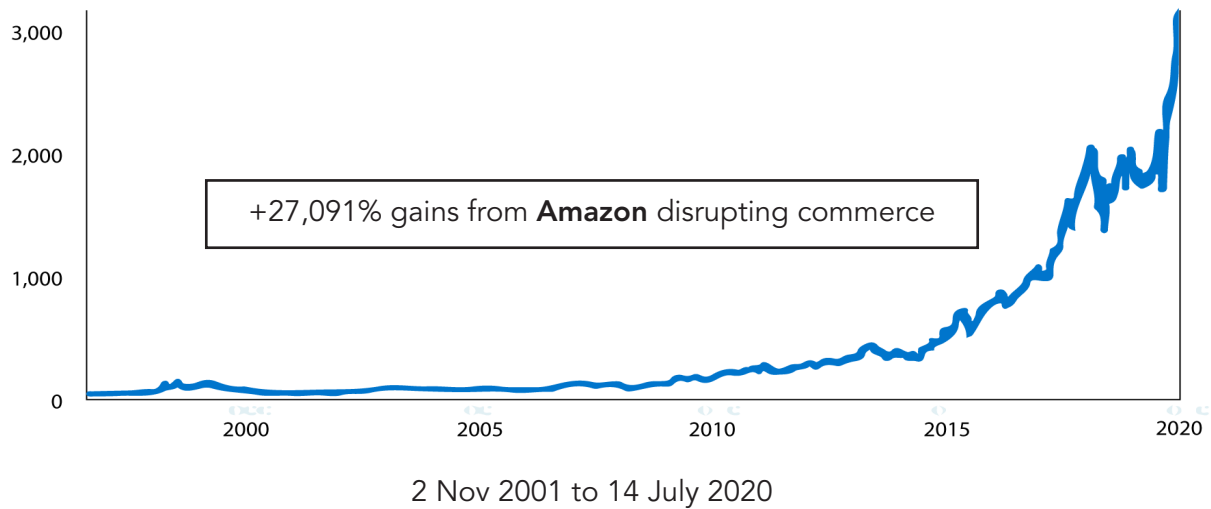
Revenues & Sales



Source: eMarketercalculations

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Amazon's net income for 2019 was \$11.59 billion with a valuation of \$356 billion.



You'd have **gained over 25,000%** with Amazon stock's meteoric rise since November 2001.

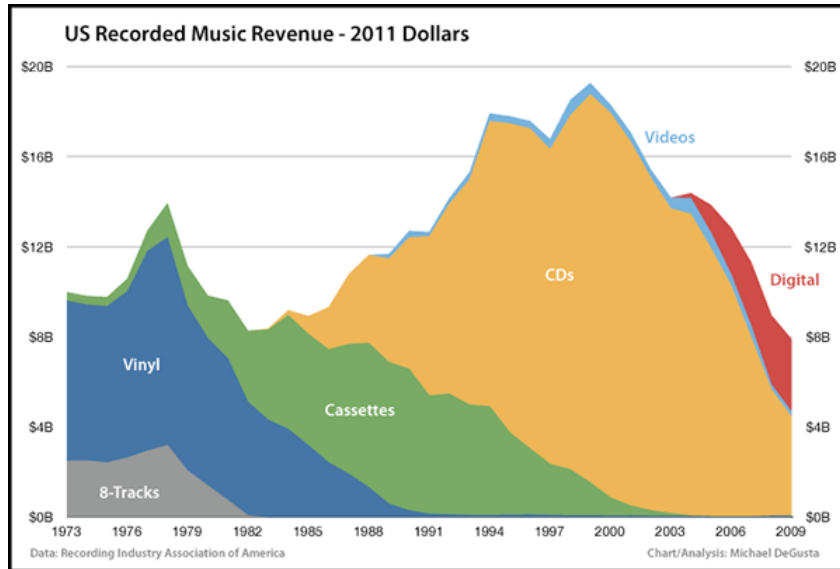
The third disruption

The third disruption was **entertainment** (another **\$2.6 trillion** market). While CD and DVD sales have plummeted, companies like Spotify and Netflix came out of nowhere to become billion-dollar companies almost overnight.

During the early 2000s, the music industry was ripe for disruption. Major mergers between record labels through the 1970-1990s produced hegemonic, slow-moving giants like Universal Music, who owned every level from production to distribution. This created a state of homogeneity in popular music, with little choice for consumers and, after the introduction of CDs, higher prices – the hallmarks of a greedy and complacent monopoly.

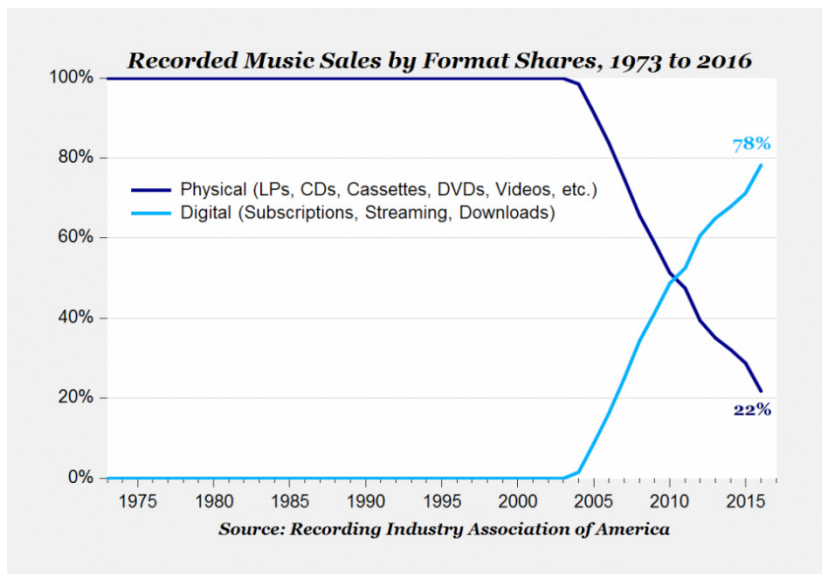
Then, the catalyst of the internet and peer-to-peer file-sharing apps like Napster, LimeWire and Kazaa completely disrupted the industry by allowing anyone with an internet connection to download as many songs as they liked, at potentially higher quality than a CD, for free.

Once the genie was out of the bottle and users were free to download only the songs they wanted, full album sales plummeted and never recovered, because why pay \$15 for a full album just to listen to the one or two tracks you actually like?



Source: Recording Industry Association of America

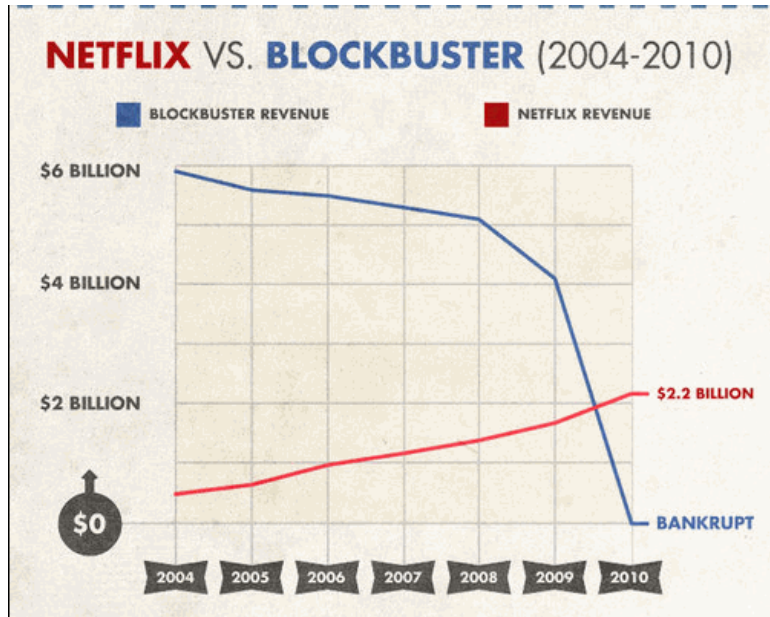
Retail physical music sales peaked in 1999 and, even with the advent of paid digital stores like Apple iTunes, have never recovered. In fact, by 2017 streaming music revenues beat CD sales for the first time \$6.6 billion to \$5.2 billion.



Source: Recording Industry Association of America

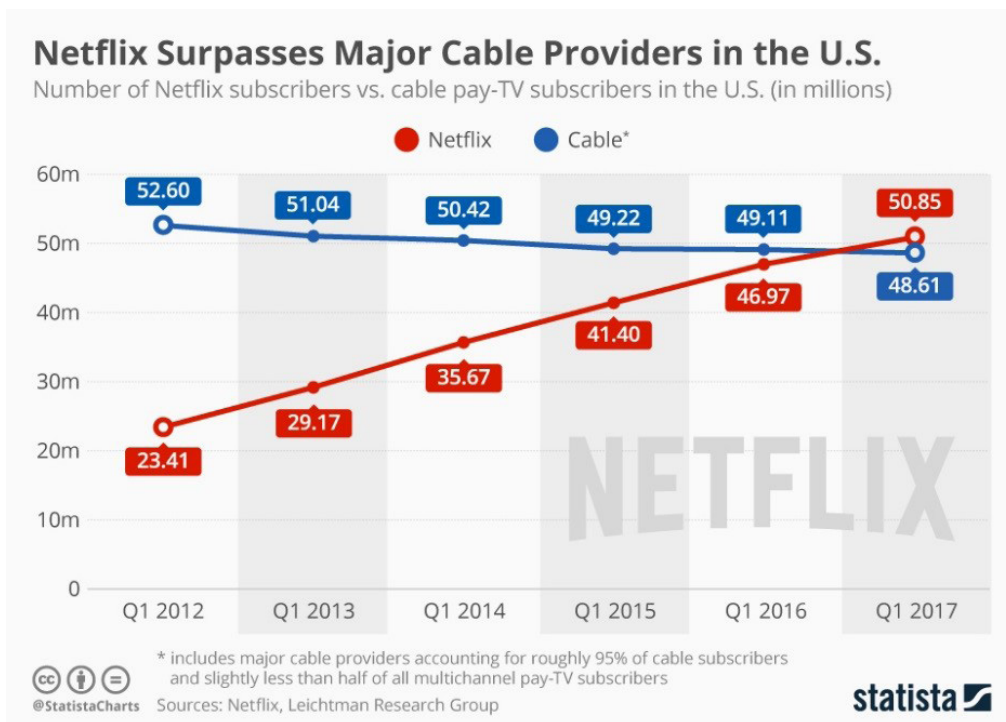
A similar disruption happened across film and television, once broadband speeds increased to allow for download and then streaming of video files. As with almost all of these disruptions, initially incumbents fought back by legal means, even resorting to suing their own customers to try to recoup revenue.

As recently as 2004, Blockbuster video rental had 9,000 stores worldwide, generating a revenue of \$5.9 billion per year with a valuation of \$5 billion.



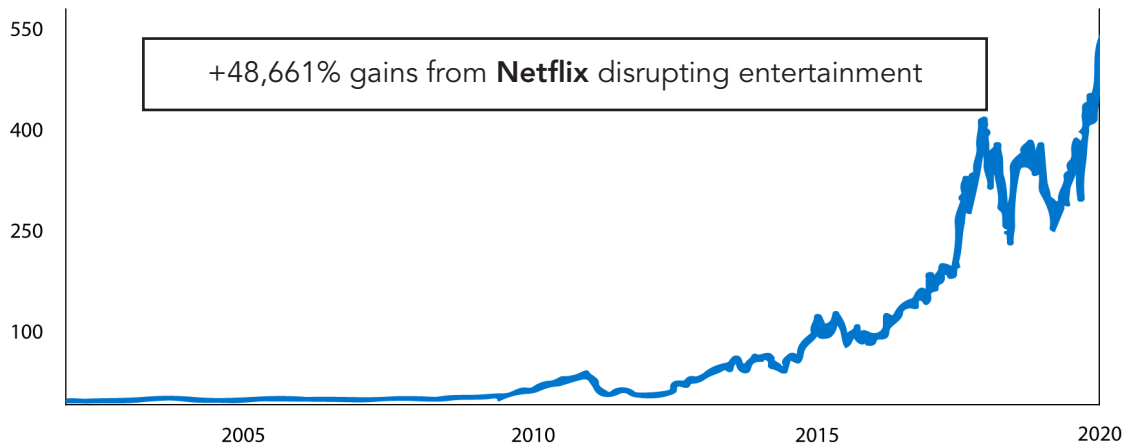
Source: digitalizationc.wordpress.com

Now, the company is in liquidation as Netflix practically dominates the entire space, with Amazon Prime a close 2nd. With streaming becoming the norm, even cable and satellite TV subscriptions such as Sky in the UK and Comcast in the US are starting to feel threatened, rebranding and updating their on-demand services to try to compete.



Source: Statista

By 2016, Netflix revenues beat physical DVD sales \$6.2 billion to \$5.4 billion.



03 June 2002 to 14 July 2020

A June 2002 investment in Netflix would now have made you **gains of over 45,000%**!

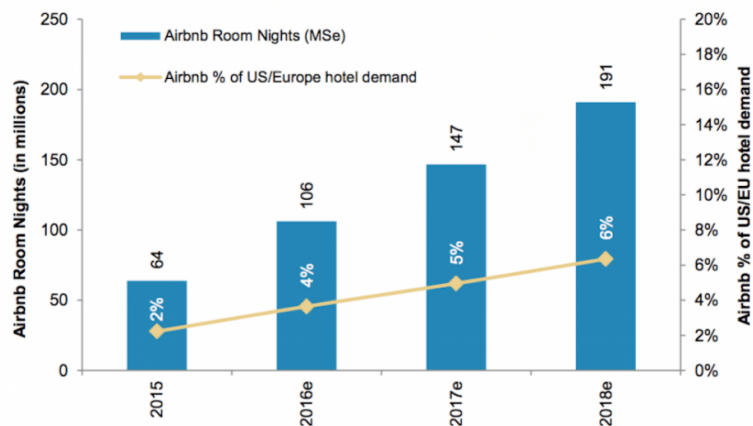
The fourth disruption

The fourth disruption was **travel**. Within a few short years, companies like Airbnb and Uber have skyrocketed to combined valuations of over **\$100 billion**.

The travel industry as a whole had been in need of disruption for some time. Major companies from airlines to hotel booking sites were mired in price-fixing scandals throughout the 2000-2010s, with inefficient middlemen like travel agents always taking a cut and driving up prices for the consumer.

That all changed in the wake of the financial crisis in 2008, as cash-strapped millennials looked for ways to generate more income using the assets they already had access to. This led to the birth of the “sharing economy” where consumers could become providers (or “prosumers”) through online platforms such as Airbnb for houses and Uber for cars.

...now expecting Airbnb to grow to 6% of hotel demand (across the US and Europe) by 2018



Source: AlphaWise, STR, MKG, Morgan Stanley Research

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Airbnb is probably the most-cited example of a disruptor. You can book a larger, better room than you'd get in a hotel, for a fraction of the price, instantly.

No wonder then that a report by HVS estimated that hotels are already losing approximately \$450 million in direct revenues per year to Airbnb in New York City alone.

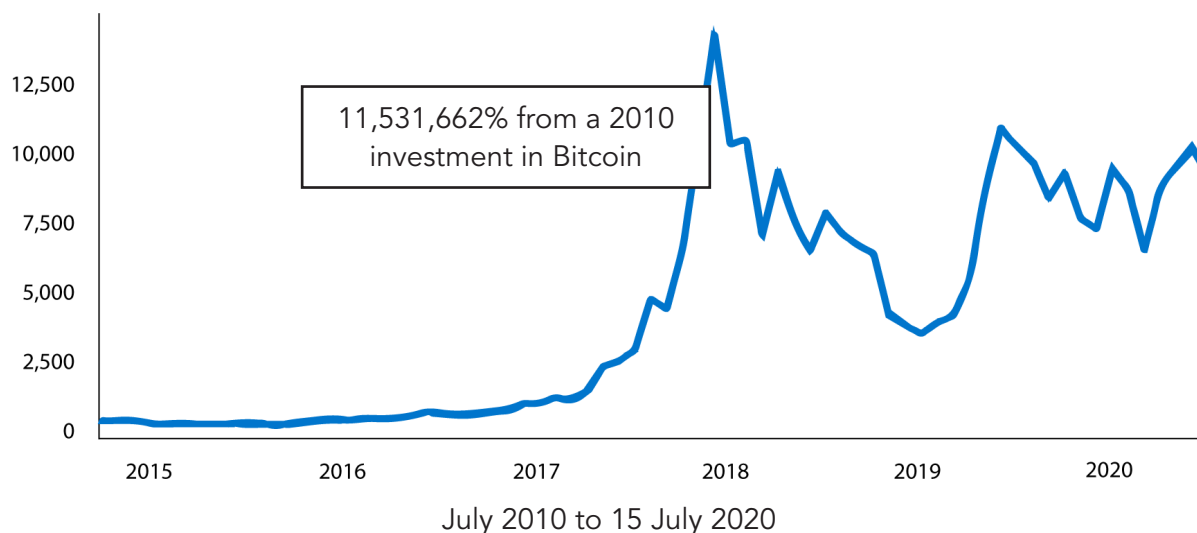
The entire travel sector contributed \$8.8 trillion to the world economy in 2019, with early movers like Airbnb and Uber set to capture a significant percentage of that as current incumbents fail to adapt.

The fifth disruption

The fifth disruption was in finance. Hundreds of new cryptocurrencies have disrupted the banking sector, with a combined total of more than a **\$200 billion** market cap.

Bitcoin came about in 2009, right after the financial collapse and subsequent bailout of the “too-big-to-fail” banks.

It's been hailed by libertarians and anarcho-capitalists as a solution to the problems of hedging against inflationary quantitative easing, protecting your wealth anonymously, and all the while disrupting the middlemen by enabling fast exchange with no need for any middleman, and therefore no banking fees.



The financial services sector is expected to reach a value of \$26.5 trillion by 2022, so no wonder there is a huge amount of opposition from banks to governments fighting this disruption.

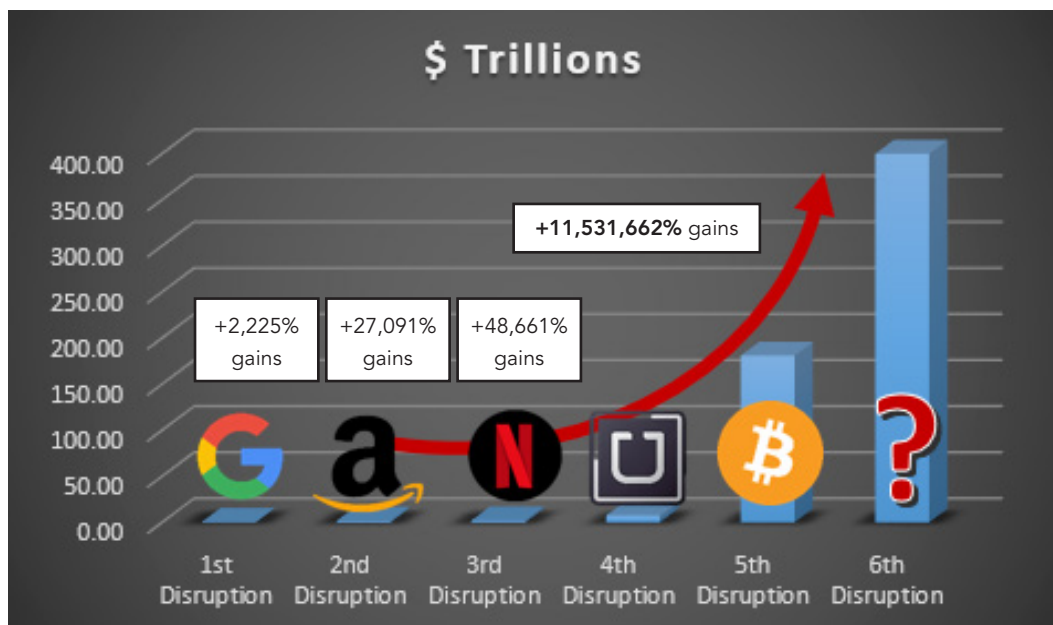
The sixth *exponential* disruption

I believe the sixth disruption will be bigger than the last five.

It will benefit from the cumulative knowledge and technology that has enabled the previous upheavals in everything from communication to travel to finance.

Furthermore, it will build on the radical developments of the last two – combining the creation of the prosumer “sharing economy” together with blockchain technology, for lightning-speed exchanges of value and resources at scale with near-perfect efficiency.

Finally, this will take place in the largest market so far – currently worth **\$6 trillion**.



Stay tuned for the rest of the series to discover all about this exciting market, how the disruption will take place, and how you can profit through the upstart companies set to usher in the greatest creation of new wealth since the Industrial Revolution.