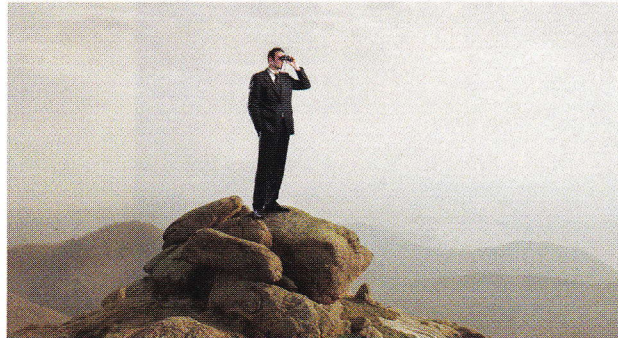


A NEW INVESTMENT APPROACH argues for looking past the halting progress of the current market cycle to the companies that really stand to gain from where the global economy is headed.

Innovation and the Next Bull Market



In 1938, inventor Chester Carlton set out to find funding for his latest idea, a dry printing process called electrophotography. Dubious about the viability of Carlton's invention, prospective investors turned him down. Eleven years later, a small New York company saw the potential of Carlton's concept and agreed to fund his research. The company became known as the Xerox Corporation.

Individual investors today live in an environment of financial uncertainty with some similarities to the late 1930s. The recovery from the Great Recession of 2007 has been slow, as countries, companies, and consumers around the world continue to pay down their debts and address other structural imbalances. With traditional powers like the United States and Europe turning inward to focus on domestic issues, global political and economic leadership has suffered, even as new powers like China, Brazil, and Indonesia exert more sway. This has added to instability and heightened the volatility of financial markets.

Lisa Shalett, chief investment officer for Merrill Lynch Global Wealth Management, recently collaborated with the Eurasia Group, a leading geopolitical risk consultancy, on a roadmap for investing in this new global paradigm. They argue that

while these "great global shifts" have certainly been challenging for investors, there may be light at the end of the tunnel. In fact, Shalett believes that innovations over the coming five years will help lead to the next great bull market in equities.

Many today have forgotten, but the 1930s were a period of extraordinary innovation, and Shalett sees important parallels to our own times. For example, new technologies in oil and gas extraction have ignited the possibility that America soon will no longer be dependent on foreign oil—a historic development with profound implications for its industrial competitiveness and economy. Another potential game changer on Shalett's radar is three-dimensional printing. This technology, in which solid objects can be produced remotely through the use of Computer-Assisted Design software, raises the possibility of personalized manufacturing and global delivery chains that operate at the speed of a fax.

Innovations in health care also hold promise for investors who are willing to take a long-term approach. Twenty years after the start of the Human Genome Project, personalized medicine has become a reality, paving the way for treatments that are tailor-made to patients based on individual genetic data. Across the emerging world, meanwhile, whole new markets for such innovations are being created by a rising middle class who demand access to more-advanced medical care.

Much like the company that eventually took a gamble on Carlton's seemingly outlandish photocopying idea, today's investor would be wise to adopt an attitude of openness and informed risk. By focusing on companies that can weather the challenges and leverage the opportunities of a global economy in transition, the strategic global investor is well-positioned to benefit from the next great era of growth and stability.

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