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THE HILLSIDE FACTOR^(Y) FOCUS: INDUSTRY LANDSCAPE AND OUR PREFERENCES

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What makes for a promising industry in the eyes of investors?

For the sake of predictability, many (including us) would look for ones that do not change often over time (think beverage, pest control vs. artificial intelligence, biotech). But stability aside, we also research into the industry landscape to gauge the potential of our interested companies to grow profitably and sustainably. What does this really mean? Let's give two examples here.

Legal Monopoly in Under-Penetrated Industries

As previously highlighted, this is what we think would be an ideal setup for a growth company (and its shareholders). From our portfolio, [Fever-tree](#), [Integrated Diagnostics](#), [Kaspi.kz](#), and [Evolution Gaming](#) fall into this category. All of these companies possess an over 50% market share with a significant (if not ever widening) competitive gap to the #2 player. Most of the incremental value of these companies would be driven by the increasing penetration of the industry, where certain mega-trends hopefully come into play: e.g., premiumization of drink mixer, digitalization of our daily life.

Market Leadership In Slow-Growth, Fragmented Industries

Long-term shareholder return and industry growth are surprisingly un-correlated (if not even negatively correlated to some extent). Although more mature industries deserve no topic among investors during a cocktail party, they are less likely to attract new entrants. Moreover, a low degree of concentration may provide leading industry players with the chance to grab market shares. Within our portfolio, [Alimentation Couche-tard](#) has been leveraging its scale advantage and brand power to consolidate the convenience-store industry in North America. So have [RH](#) (with a top market share of 3%~4% earned from scratch after turning around a nearly bankrupt niche-hardware retail business) in the US premium home-furnishings industry and [Kato](#) (being the only industry participant listed on the Main Board of Hong Kong Stock Exchange) in the elderly-home industry in Hong Kong.

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