

Dear Investor,

Our core competency is investing in companies with growing cash flow and stellar balance sheets. These are some of the most dominant corporations in the world with established brands, service models or manufacturing prowess. They have long operating histories and have proven track records over multiple market cycles. Their revenue streams are diversified, size has not impaired their ability to adapt and their organic growth has been bolstered by targeted acquisitions. Over a long investment horizon these **dividend growers** have significantly outperformed the S & P 500. We still believe these stocks should represent a significant core holding in your portfolio but as Bob Dylan so aptly crooned, “The times, they are a changing”.

Enter the dawn of disruption 6.0. In baseball terms we could be in the 2nd or third inning of another Kondratieff Wave. Below is a historic look at previous waves:

- 1. (1600–1780) The wave of the Financial-Agricultural revolution
- 2. (1780–1880) The wave of the Industrial revolution
- 3. (1880–1940) The wave of the Technical revolution
- 4. (1940–1985) The wave of the Scientific-Technical revolution
- 5. (1985–2015) The wave of the Information and Telecommunications revolution

This sixth wave, or as Daniel Smihula named it, “The hypothetical wave of the post-informational technological revolution” could be the most disruptive to all current business models, including some of our Dividend Growers. The poster child for the 6th wave clearly is Amazon. They started off as an online bookseller and now have a larger market cap than the top 10 retailers combined. But it’s not just broad retail disruption and domination, Amazon is the third largest player in video streaming, the largest in ecommerce B to B, number one in cloud hosting, and is positioning itself to be a dominant player in robotics, automated household assistants, and who knows what else. Jeff Bezos, their CEO strategizes and measures performance not on an annual basis but on a daily basis. Please see the link to his famous “Day 2” letter in 2016’s annual report (<https://www.amazon.com/p/feature/z6o9g6sysxur57t>). In a corporate world of relatively slow growth, Amazon’s goals are to steal revenue from everybody else.

As investment managers we need to be prepared for the possibility that Amazon and many other disrupters (Google, Facebook, Alibaba, Tencent, Netflix, Tesla, and Apple to name a few) are phenomenally successful at implementing their business plans. Part of that preparation comes with understanding their growth potential, digging into business models and balance sheets and at some point coming to grips with their extremely high valuations. If successful (and they already are but remember we could be in the 3rd inning), it could wreak havoc across almost every industry in the S & P 500. Stay tuned and have peace of mind knowing that we will never be complacent as an investment shop.

Please call or email me with any questions.



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