

Hurd on the Street

Picks and Shovels

1849 was the peak of the gold rush in which many thousands of individuals flooded into Northern California in pursuit of vast fortunes in the form of gold. Most of these “forty-niners” weren’t native to the region and were new to prospecting, and as such had no competitive edge in determining which locations were likely to produce gold.

Astute entrepreneurs quickly realized that, rather than participate in a fiercely competitive boom-or-bust prospecting market with no competitive edge, they could instead sell mining equipment, say, picks and shovels. In so doing, the bet wasn’t on which locations would strike gold, but merely that gold would be struck *somewhere*.

The pick and shovel business was born, and it remains a powerful concept more than 150 years later.

Companies today are innovating at an incredible pace and numerous trends are changing the world. In most cases it is easy to observe the trends that are occurring, the hard part is identifying who the winners will be. We believe that, in many cases, the best way to invest in an innovative new trend is to identify the pick and shovel stock, the company whose fate depends not on picking a trend’s winner, but on the existence of the trend itself.

We often invest in an innovative trend through identifying the pick and shovel stock, the fate of which depends not on picking a winner, but on the existence of the trend itself.

For instance, we know there is explosive growth in the internet-of-things (IoT), in which everyday household and industrial products are connected to the internet. We also know that the number of connected devices is very likely to grow rapidly for many more years. Rather than try to predict which company is going to make the best smart toaster, we believe it is far easier to predict and thus we are more likely to be successful by owning the company that makes chips designed specifically for IoT applications.

In another example, rather than trying to predict which pharmaceutical company will have a successful FDA trial, we can own a company that offers logistics solutions to drug companies.



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Then, the bet isn't on a particular drug gaining approval, but rather that some percentage of drugs will gain approval.

In yet another example, rather than owning the stock of oil exploration firms that may or may not find oil, we can own the companies that provide oilfield technology services to exploration firms.

IoT's, medical developments, and oilfield technology are only a few examples, and there is no shortage of innovative & world-changing trends for us to participate in as American ingenuity is alive and well.

Our weekly analysis of 1,000+ chart patterns helps point us to which trends large institutional investors are getting behind and which individual stocks are likely to benefit. We then conduct an in-depth appraisal to verify that the company has a competitive edge, limited competition, and a long growth runway.

By using our disciplined process, we believe we can identify pick and shovel stocks that are set to benefit enormously from world-changing innovations while mitigating the risk of selecting the wrong mine, the wrong oil patch, or the wrong smart toaster producer.

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