News & Views

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Investing on the 'edge' but avoiding the buzz

Edge computing has the potential to transform the world but investors need to keep their feet on the ground, says Nick Clay, manager of Newton's global equity income strategy.

How do you avoid getting carried away by the next big thing in tech? That's a key question for investors as the world of edge computing[1] becomes a reality, says Nick Clay, global equity income manager at Newton, a BNY Mellon company.

Over the next 24 months, he says, as 5G starts to gain traction, we will likely begin to see memory and computing power move out of data centers and closer to the devices and apps using them in the real world. "It's no longer about data centers hosting information in the cloud," says Clay. "If you think about electric vehicles, there's no time for information to be moving back and forth between fixed locations. Instead, data has to operate at the edge in real time. Not just cars: buildings, homes, critical infrastructure. The advent of 5G will transform how we store and use data."

Given the likely speed of innovation in this area it would be all too easy to get swept up in the hype and invest in something perceived to be the "next big thing", says Clay. But this would be a mistake: far better to take a discerning approach and look for the potential hidden gems that could deliver long-term value.

Clay believes a potential avenue for this approach is to target ostensibly "old school" or "boring" tech companies – whose sleepy image belies their strategic appeal. "In the fast-moving world of tech, some older companies are viewed as slow-growth dinosaurs. But in my view the reality can be far-removed from this pedestrian image," says Clay.

Fundamental truths

Clay says investors are often unaware of the inherent biases informing their choices.

"There's a litany of embedded biases that changes the way people behave – and as an investor you need to at least be aware of these," says Clay. "Take superiority bias, for instance – that is, our tendency to think we know better than everyone else. This can warp our awareness of risk and lead to mistakes. Then, there is the Fear of Missing Out (FOMO), which I believe has driven much of the tech rally of the past 10 years. Or how about the tendency for people to overestimate the pace of change stemming from technology and innovation – but then to underestimate the ultimate impact that change will have on society in the long term?"

To counter this list of human foibles, Clay emphasises the value of consistency and an ability to think differently. "Having the freedom to be a contrarian when everyone is obsessed with the same thing is tremendously important," he says. "But you can only do that if you have the right rules and the right boundaries in place."

In the Dreyfus Global Equity Income Fund that Clay runs on behalf of BNY Mellon Investment Management, that means sticking to a framework that determines when a stock can be bought and when it must be sold. Typically, only stocks yielding 25% above the market (as defined by his benchmark) can come into the portfolio and they are typically sold when the yield falls to equal or below that of the wider market.

[1] Edge computing is a method of optimising cloud computing systems by taking the control of applications, data, and services away from central nodes and closer to the end user. Its most obvious application is in driverless cars which rely on high volumes of extreme low-latency data to ensure safety.

Says Clay: “It imposes patience by default: we have to wait until the companies we like are yielding enough and then we have to sell them – even if we don’t want to – when their dividend yield hits that cut-off point.”

Some investors may see this kind of parameter-driven investing as a burden – but Clay takes a different view. “It’s actually helpful,” he says. “Without those rules in place it can be really, really difficult to have the patience to wait until a favorite stock is appropriately priced.”

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