EQUITY

Addressing Always-Connected Technology

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Intensifying demand to have everything at one's fingertips seems to be the driving force behind the innovation in technology, finance and even industrials. Franklin Equity Group's Matt Moberg, vice president and portfolio manager, Franklin DynaTech Fund, observes a general shift in the technology industry to address evolving consumer needs. He explains why the "always-connected" trend could bring technology into the front offices of most industries in 2017, and beyond.

Technology has been accelerating at such a rapid pace over the past few years across the globe, so it's tempting for investors to look ahead and ask "what's next?" The industry is thriving, and we believe the transition to technology-on-demand will likely integrate technology even further in our day-to-day lives in the years ahead.

Technology is a far-reaching term these days, and it increasingly applies to non-information technology (IT) sectors, too. In recent months, many investors seem to have pivoted toward sectors with a more cyclical component, such as the financials, industrials and to some extent, energy. These sectors are leaders in the development of innovative products or prominent suppliers of unique technology, and what we've witnessed in on-demand technology and services is early evidence of what could be possible in these industries.

Our broad mandate lies in investing in "dynamic technologies," which we define as having a force that stimulates change or progress. So if innovation is where the bulk of wealth creation occurs, we look for innovation across all sectors.

We think fundamental research is a valuable tool in identifying innovative, growing companies that can provide investment opportunities regardless of shifting markets. We also believe active management is needed to successfully invest in innovation—an aspect of the market that is often misunderstood. Misunderstandings often mean that investment opportunities get overlooked.

The Drive behind Technological Change

The IT sector has remained strong this year, and we believe this is due in no small part to a more enthusiastic reaction to new technology by a wider array of businesses. Industries that were once reluctant to adopt new technology due to lack of testing are now seeing technological developments as opportunities, brought about by the surge in so-called "hyper-connected" users.

We have seen early evidence of what is possible in the transportation and financial services industries—smartphone applications can notify train departures down to the minute; travel planners read live traffic updates and re-route journeys if necessary; and stop-loss orders can be placed on mobile trading platforms. And with increased usage and dependency on mobile apps, we've witnessed a transition to services being made available on-demand through cloud-based computing, artificial intelligence (AI) and digital payments.

A burgeoning sharing economy has driven demand for mobile phone applications that allow users to share a service—a cab ride, for example. In the retail sector, vendors who traditionally have a physical shop have suffered as Internet-only companies put shopping at consumers' fingertips. Elsewhere, robots are being tested for use in jobs typically performed by humans. Testing for self-driving vehicles is ongoing; and in financial services, "robo-advisors" are guiding clients using algorithm-driven investing methods.

We're also keeping an eye out for innovation in medical technology that could displace alternative medical products in a large and growing market. For example, developments in digital health care could change the way potential sufferers of cardiac arrhythmias (an irregular heartbeat) are diagnosed. Instead of a large Holter monitor which continuously monitors heart rhythms, technology has developed a small and waterproof patch that manages the data collected.

Looking Ahead

AI is another powerful technology that we consider to be underpinning positive growth potential. AI allows computers to perform tasks that usually require human intelligence, such as data analysis, speech recognition, and decision-making. It has been employed in the fight against cancer—by providing an intuitive way for doctors to sort through vast databases of cancer research to identify targeted treatments—in addition to improving driving safety. Innovation in AI, in addition to biotechnology, medical device technology and alternative energy, will likely bring us closer to having further integration of technology in our day-to-day lives.

Finally, we are optimistic that the robust IT-focused merger and acquisition (M&A) activity we saw in 2016 can continue throughout 2017, as a variety of cash-rich companies take advantage of low interest rates to build scale and scope through consolidation. We believe companies that have participated in this consolidation could reward investors, and we expect this trend to continue.

By focusing our investment approach on companies that are leaders or emerging leaders in their industries with strong management teams, we look to leverage long-term trends for capital growth opportunities regardless of market volatility.

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What Are the Risks?

Franklin DynaTech Fund
All investments involve risks, including possible loss of principal. The Franklin DynaTech fund's investments in fast-growing industries, including the technology and health care sectors (which have historically been volatile) could result in increased price fluctuation, especially over the short term, due to the rapid pace of product change and development and changes in government regulation of companies emphasizing scientific or technological advancement or regulatory approval for new drugs and medical instruments. The fund may also invest in small-capitalization companies, which can be particularly sensitive to changing economic conditions, and their prospects for growth are less certain than those of larger, more established companies.

These and other risks are described more fully in the fund's prospectus.

Investors should carefully consider a fund's investment goals, risks, sales charges and expenses before investing. Download a prospectus, which contains this and other information. Please carefully read a prospectus before you invest or send money.