From the desk of James Abela

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Attending the Morgan Stanley Tech Conference in San Francisco in March was fascinating. On stage were the US tech giants such as Apple, Facebook, Google and Microsoft that are changing the world in so many ways. Many small, innovative technology companies on the rise also featured. The conference reaffirmed once again the potential that technology has to boost productivity in our low-growth and indebted world.

The sobering note of the conference, though, was provided by a panel of private-equity venture capitalists who warned about the rising number of unicorns (companies valued over US$1 billion) that are making losses and start-ups that are overpriced. The venture capitalists said they are concerned that risk-taking and valuations are veering towards the excesses of the tech boom of the late 1990s.

I tend to agree. Today's ultra-loose monetary policies have led the stock market to misprice risk to the point of valuing it at close to zero. As investors have learnt from past frenzies, such episodes are followed by the realisation that risk does warrant a price adjustment and continuous thoughtful consideration. Businesses and markets change constantly while carrying financial, execution, competition, balance-sheet, sustainability, credibility and valuation risks that need to be costed appropriately.

The strategy driving stock selection for the fund is to hunt for quality structural winners as well as value names that have strong cash generation, solid assets, robust management and reasonable balance sheets. When a frenzy is underway, it's always tempting to seek out the highly leveraged lower-multiple assets that are running the hottest. However, even if it allows for short-term outperformance (and, thereby, not following such a strategy can lead to short-term underperformance), such a strategy will come to grief quickly if risks emerge in balance sheets or earnings and these risks get priced into the offending stocks, usually to a punishing degree.

As the tech boom and other bubbles remind investors, in the long run stock markets are governed by earnings. What's interesting when it comes to Australian stocks is that mid- and small caps are braced to grow their earnings per share for the year ahead at a faster pace than for large caps – around 10% in 2016 for mid- and small caps compared with zero growth for their large-cap peers. This has come about because three trends are hampering the earnings growth of our biggest companies. The first is the hit lower commodity prices are imposing on the big miners. The second is that higher capital requirements, lower returns on equity and rising bad debts are hampering the banks. The other is that greater competition between the big supermarket chains is eroding the high margins they have enjoyed for a long time. While all companies face a challenge expanding as Australia's economy copes with deflating commodity prices, mid- and small caps are relatively better placed because enough lesser-known names are offering technological products of vast commercial potential.

Innovation that will boost productivity, save money and is applicable to businesses everywhere has global growth potential no matter what the state of the world economy. Aconex, a software collaboration ecosystem for the construction industry, and WiseTech Global, a cloud-based software solution for the logistics industry, do exactly that.

High-quality, passionate, innovative and credible executives operating high-return and sustainable business models such as those offered by Aconex and WiseTech may become, over time, multi-billion-dollar global companies. They are of such potential they are likely to ride out macroeconomic events and risk-on-risk-off gyrations. They possess all the qualities of future leaders that we look for and could certainly be respected industry leaders among the best of breed at tech conferences in Silicon Valley.

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