The Age of Disruption speeds ahead at a lightning pace.

And the trillions of dollars driving the innovation behind it will soon transform the entire global economy.

By 2024, spending on nascent markets such as artificial intelligence and machine learning (AIML) technology could nearly double from $138 billion in 2021 to $260 billion.

Demand for renewable energy generation, long-term energy storage, and next-generation battery tech will dominate energy markets. And you can expect revenue on new energy sectors such as these to exceed $2.4 trillion per year.

Meanwhile, electric vehicles sales will have surged past $1 trillion per year –on their way to $2.5 trillion by 2027 – as advances in **Li-ion battery tech kicks** the internal combustion engine to the curb.

These and other massive new markets emerging on the leading edge of disruption have the full attention of entrepreneurs and innovators worldwide. This hyper-interest has spawned tens of thousands of companies focused on capturing their share of the massive wealth created along the way.

But the fact is that only about 1 in 5 of these startups will ever find success.

And it's those 1 in 5 that deserve your full attention.

The Vital Few

Look at any competitive industry, and you'll find 80% of the spending cornered by only 20% of the companies.

In fact, an economist named Vilfredo Pareto discovered this 80/20 split in the late 1800s. He studied land ownership in Italy. And he found that 20% of the population owned 80% of the land. When he then cast his eye on other countries, he found this same pattern repeating itself.

Today, we call it the 80/20 rule. You will also hear it called the Pareto Distribution or the Law of the Vital Few. And this same principle characterizes the distribution of wealth around the world as well as market share within industries.

Given this persistence, it's a good principle to keep in mind. Especially when determining how emerging, high-growth industries will play out over time.

And the number of companies fighting for a piece of these Tomorrow Tech pies is massive.

For instance, I've identified over 4,000 companies currently working on developing AIML solutions for the marketplace. Now, many could end up acquired. But ultimately, of the ones that manage to pass the gauntlet of competition, the lion's share of that soon-to-be $260 billion market will accrue to a mere 1 in 5.

You can find another 568 companies angling for a piece of one or more of the high-growth renewable energy markets. But only the Vital Few will manage to garner 80% of the profits from those multi-trillion-dollar markets.

And while I can point to over 320 companies building electric cars, planes, and air taxis right now. Only a handful will dominate the EV landscape of tomorrow.

So, to place yourself on the right side of disruption, you need a framework to identify those Top 20 contenders as early as possible because the biggest wealth gains go to those companies that ultimately join the ranks of the Vital Few.

And today, I want to walk you through the basics of sizing up a long-term winner.

Weighing Your Opportunities

When you invest, you do so to earn a return.

But you don't consider just any return sufficient. You expect the investment to outperform other investment opportunities with similar risks.

For instance, when you buy a stock, you expect to earn more on it than you could on a money market fund or bank CD. Otherwise, you would not take the extra risk without the additional return.

Likewise, you would not invest in the stock of a small, risky biotech company unless you expect it to outperform shares in IBM or other large significantly, established companies with similar risk.

In fact, any investment decision comes at the expense of investing in other opportunities with similar risk and return. Consider the return on those alternatives as the cost of a decision. And we refer to the return an investor could have made on those alternatives as the opportunity cost.

Your investments must return more than that opportunity cost to consider it a success. Outperform that cost consistently, and your investment decisions added value. Underperform it regularly, and those decisions destroyed value because you earned less than you would have given the alternatives at the time.

Well, the same holds true for a CEO.

They take money raised from equity investors when the company issues stock, lenders in the form of debt, or from profits and invest it. They then use that cash to buy a warehouse, manufacturing plant, equipment, retail store, advertising to build the brand, research and development, and so on.

These constitute investment decisions because the CEO expects to make money from those investments.

And for these decisions to add value, these investments must generate more return than investors expect to earn on other opportunities. Do this consistently and more investors flock to the stock. And more investors mean shareholders get rewarded with a rising stock price.

And using Amazon as an example, here's how you parse through the field of opportunities to find a winning CEO.

A Look Under Amazon's Hood

To date, Jeff Bezos has invested over $220 billion in Amazon.

That's not the total amount invested in the company over its entire history. Assets depreciate and need to be replaced. But $220 billion accounts for the total amount capital invested in Amazon that contribute to Amazon's ability to generate income.

This capital includes $121 billion spent on property plant and equipment such as trucks, planes, and distribution centers. It also considers over $70 billion invested into building the Amazon brand along with research and development expenses in drone delivery and driverless technology, logistics management, and in warehouse automation.

The "Buy with One Click" button is patented – and valuable – intellectual property.

And that $220 billion also figures in the premium that Amazon paid to acquire other companies and secure technology critical to its success.

Next, you need to determine what return those investments should generate. And to figure that return out, you need to add up what you can expect from other investment alternatives with similar risk.

Amazon pulled in $419 billion in revenue during the last 12 months and has consistently grown that revenue for years. So, it is a large, consistently profitable company. Plus, it carries little debt. So, Amazon is not a high-risk stock.

We start by determining the risk-free rate. This is what you can earn historically on a 30-year government bond, which currently stands at around 1.6%. It's a bit higher than that today, but 1.6% is an average over time.

Next, we look how much stocks have returned on average, adjusted for their stock price volatility and industry specific risks, above and beyond that risk-free rate. For large, international companies, that return is 4%.

Add these together, the risk-free rate and the risk premium, and you get an opportunity cost of 5.6%.

This is the hurdle rate that Amazon needs to outperform.

And when you multiply this hurdle rate of 5.6% by Amazon's $220 billion in capital, you can see that Amazon needs to generate at least $12.2 billion in net operating profits after taxes (NOPAT) to deliver an acceptable return on that capital.

Anything above that amount is value added for shareholders (*see sidebar to the right*). And for the 12 months through the end of March, Amazon exceeded that hurdle by $28.8 billion.

> Measuring a company's performance in this way is referred to as economic value add or economic profit because it considers the opportunity cost of capital. It weighs the tradeoffs. This measure reveals true profitability. And it has little to do with the earnings you see reported on financial statements. That's a discussion for another time but suffice it to say that positive earnings aren't real profits.

Now, that's just one year's worth of economic profit. Should Amazon simply maintain that level or profit – meaning that Amazon doesn't grow its current profits – that alone is worth about $545 billion for shareholders today. That $545 billion, along with the company's $220 billion capital base, accounts for 41% of Amazon's $1.87 trillion market cap. Which means that the market has priced in a 60% growth in profits over the next several years (not per year, but cumulative) to justify Amazon's current stock price of $3,718.

For reference, over the last 6 years, Amazon has grown economic profits on average about 5% per year. Last year it shot up to 6.9% over the prior year, likely because of COVID fueled online buying.

And this is where we need to start making assumptions about the future. Specifically, how much can Amazon increase profits per year and for how long?

Should the company resume its historical trend of 5% and Amazon will need to maintain that pace for 8 years to justify the current stock price. Maintain last year's 6.9% growth for about 6 years and the stock is fairly valued today. Grow economic profits faster than 6.9% for longer over the coming years, and Amazon's stock is worth much more than its current price tag of $3,718.

And to do that, one of a few different things need to happen.

The Path to a Loftier Stock Price

To continue to drive its stock price higher, Amazon could grow revenue at a much higher pace than it has managed historically while maintaining its current cost structure. The company spends about 60% of its revenue to produce the products it sells – which include its online platform and producing video content for its streaming service. It spends another 12% to 13% on sales, general and other administrative expenses.

And given the massive shift we're experiencing in online shopping and delivery – and Amazon's dominance over that sector – that may not be too much of a stretch.

Alternately, Amazon's major investments in warehouse automation, driverless tech, and drone delivery could result in a decrease in its cost structure. Which means even more profits flow to the bottom line.

Or, heck, Amazon could start launching people into space for a massive profit. But that's not an assumption I'm willing to hang my hat on.

There's a lot of moving parts. And to see how these scenarios impact Amazon's stock price, check out **my Deep Dive on Amazon**.

Now, Amazon is a massive, well-established company with multiple lines of business and a long history of performance to which we can look.

This is not the case for the thousands of startups scrambling to be among The Vital Few on the right side of the Age of Disruption. But we can still use the principles I laid out above to see which ones are on the right path, despite having less information.

And I'll apply those principles to my top battery tech disruptor, Sila Nanotechnologies.

The Makings of a Battery Tech Contender

In **The Heart of the EV Revolution**, I pointed out that Sila has raised just shy of $1 billion from investors. While much of that has yet to be put to work, we can assume most of that amount will be invested in capital and work on simple assumptions.

Given Sila's early stage and the fact that its technology is still under development, we need to put a high hurdle rate on the company.

We used 5.6% for Amazon. But to be conservative, I'm going to increase that rate by a factor of nearly 4 to 20%. And 20% of $1 billion in capital gives us a $200 million hurdle. This is the amount of net operating profit after tax, or NOPAT, that Sila needs to deliver in a few years.

Next, let's look at Sila's potential market share.

Demand for Li-ion batteries is expected to hit $80 billion in 5 years. I believe Sila has a great shot a bringing its technology to market and capturing a significant chunk of that demand. But to again be conservative, let us see minimum revenue Sila needs to generate with a low profit margin of 10%.

For Sila to hit $200 million in NOPAT on 10% profit margin, it needs to generate $2 billion in revenue. And that $2 billion is a mere 2.5% of the projected $80 billion Li-ion market in five years. Should Sila succeed – which given their strong balance sheet and strong leadership – I expect its market share will be much higher.

So, even with exceptionally high cost of capital assumptions and low profit margins, Sila looks like it has a great shot at adding an exceptional amount of value for shareholders. Anything better – more market share, less risk, or higher profit margins – and Sila will most certainly be counted among the Vital Few.

And while I've got you, are there any other companies for which you would like me to do a Deep Dive? I'd be happy to dig into one if many of you are interested, so let me know in the comments.