

COMPOUND & CONQUER

/ Issue 3 /

The 70 businesses built to Compound & Conquer.

Markman Capital Insight



The Overreaction Issue

The crowd is selling the moat. We are buying it.

At a gala in Rome in May, Ferrari unveiled the Luce, its first fully electric vehicle. Designed in collaboration with LoveFrom, the creative firm led by legendary former Apple design chief Jony Ive, the four-door grand tourer represents a radical departure from seven decades of automotive tradition. The Luce features a minimalist, aerodynamic silhouette that completely eschews the aggressive lines of classic internal combustion models. The high-revving engine note that has long served as the acoustic signature of Ferrari has been vanquished for a silent electric powertrain.

The reaction from the automotive community was immediate and overwhelmingly negative. Core brand loyalists flooded digital platforms to express deep disapproval, claiming the lack of heritage design elements diluted the historical DNA of the company. Technology and automotive journalists focused heavily on the base price of \$650,000, which positions the vehicle well above standard luxury electric options. Media commentators labeled the vehicle an absurd value proposition, arguing that no rational consumer would pay such a premium for an unproven electric platform.

The financial community quickly adopted this negative narrative. The consensus across major financial news networks suggested that the Italian manufacturer made a fatal strategic error by alienating its core customer base. Analysts published research notes questioning the long-term demand for an ultra-luxury electric saloon, warning that the capital expenditure required for the transition would severely erode future corporate returns. During the three days after the Luce reveal, shares fell by 8.5%, as short-term traders rushed to sell positions.

This severe reaction reveals a profound misunderstanding of the economic engine that drives Ferrari. Bears treated the Luce as a conventional consumer automobile bound by traditional metrics of utility, range, and mass-market appeal. They mistook Ferrari for a high-volume manufacturing company rather than what it actually is: an exclusive luxury ecosystem that manufactures highly restricted, collectible status symbols for the ultra-wealthy. For this demographic, a vehicle is not solely a mode of transportation. It is a wildly collectible toy and a portable store of wealth.

The collaboration with Jony Ive was not an aesthetic gimmick. It was a deliberate strategy to create an instant historic artifact. By pricing the vehicle at \$650,000 and strictly limiting production volume, management ensured that the asset would remain completely out of reach for all but the most elite collectors. In the world of high luxury, extreme pricing and polarizing design elements do not destroy demand. They create it. The unconventional appearance guarantees that the vehicle will be instantly recognizable, reinforcing the social status of the owner and ensuring its long-term appreciation on the secondary collectible market.

Financial analysts also got this completely wrong. Ferrari operates a strict waitlist system, requiring buyers to have a pre-existing ownership history with the brand merely to qualify for a purchase slot for rare items. The initial production run for the Luce was entirely pre-sold to top-tier clients long before the public reveal in Rome. The company remains completely insulated from traditional automotive inventory cycles or demand fluctuations. The 8.5% drop in the stock price was entirely disconnected from reality.

The clear teachable moment for long-term investors is to evaluate the underlying business model rather than product releases and news cycles. Evaluating a business requires looking past superficial product transformations to determine whether a new strategy strengthens or weakens its primary competitive advantage. The highest-performing compounders in stock market history achieve outlier status because their management teams are fanatically focused on their core economic moats. This means completely ignoring the short-term noise generated by media commentators and trading desks.

True corporate innovation is polarizing by design. When a management team possesses a clear, long-term vision, it will routinely make strategic decisions that baffle short-term oriented investors. This structural disconnect creates exceptional entry points for patient longer-term investors. The goal is to acquire shares in elite businesses at a significant discount to their true intrinsic value.

A prominent, real-time example of this analytical error is the current market anxiety surrounding SpaceX. Elon Musk has disrupted aerospace engineering so completely that investors now reflexively expect him to destroy every legacy business operating in aerospace, defense, and even artificial intelligence data centers. This reaction sucks the analytical oxygen out of the room. It creates a false binary narrative, blinding investors to the physical realities of component manufacturing and the immense defensive moats protecting elite corporate compounders.

This month in Compound & Conquer we are highlighting a pair of companies damaged by the SpaceX analysis vortex. The crowd is overreacting. That means opportunity.

Stay focused on the moat.

Parker Hannifin (PH)

Precision Moats and Orbital Narratives



Five-year total return: +238.6%. CAGR: 27.6%. Source: Fiscal.ai.

The bear case against Parker Hannifin stems from a simple fear: that SpaceX will destroy traditional defense contractors. Short-term traders worry that as Elon Musk wins huge government space contracts, legacy aerospace suppliers will lose their funding. The crowd mistakenly assumes that private, fast-moving rocket builders will bypass older companies completely. Bears conclude that Parker Hannifin faces a permanent drop in revenue as the government shifts to cheaper, mass-produced space technology.

This negative thesis completely misinterprets what the business actually builds. Parker Hannifin does not make generic, basic parts that can be easily bypassed by modern software or 3D printing. Founded in 1917, the company has spent over a century surviving and adapting to every major shift in industrial history, from the first commercial airplanes to the nuclear age. Today, it designs and builds highly specialized motion and fluid control systems that must operate flawlessly under extreme pressure and intense thermal stress. Its proprietary valves, custom seals, and flight-critical hydraulic parts are indispensable for advanced flight vehicles. In fact, Parker Hannifin operates as a critical subsystem supplier directly within the private spaceflight pipeline, meaning that as SpaceX accelerates its launch schedule, it relies on Parker Hannifin hardware to fly.

Further, the aggressive expansion of the global space and defense market acts as a major tailwind for the business rather than a threat. More complex rockets, advanced satellite constellations, and next-generation military hardware require significantly more precision control nodes, not fewer. Because the tolerances for flight-critical components are so narrow, switching to unproven alternatives introduces immense mission risk. Parker Hannifin commands decades of specialized metallurgy, strict regulatory certifications, and engineering trust that cannot be replicated overnight by investment alone.

The operational performance of the enterprise exposes the flaw in the bearish outlook. In April, Parker Hannifin management lifted full-year 2026 adjusted earnings guidance to \$31.20 per share, anchored by a record order backlog of \$12.5 billion. The company also doubled down on its competitive advantage by announcing a \$2.55 billion cash acquisition of CIRCOR International's aerospace division. This acquisition deepens control over critical defense systems, expanding its patents and reinforcing its pricing power. Management continues to systematically convert robust industrial demand into highly predictable cash flow.

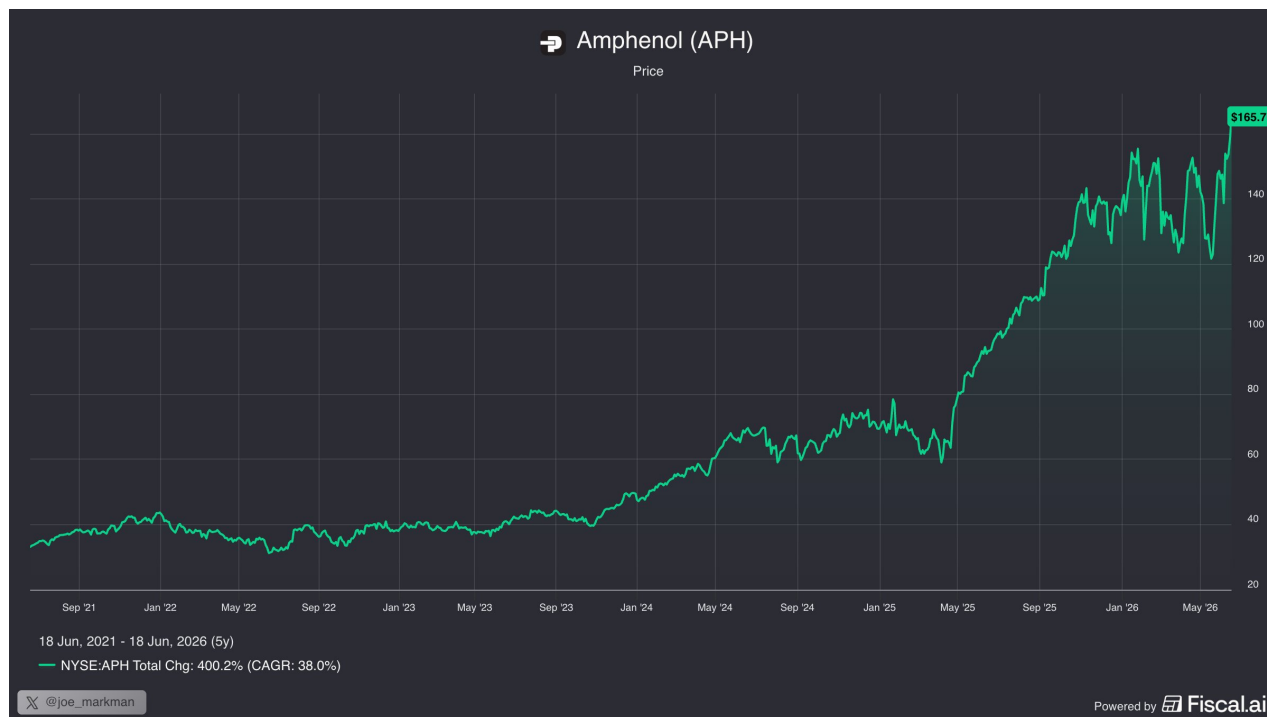
To fully understand the wealth-creating power of this unheralded engineering moat, look at the historical data. In June 2006, Parker Hannifin shares traded at a split-adjusted price of \$39.50. Today, the stock trades at \$951.34. This represents an annualized price growth rate of 17.24% over a 20-year horizon. A \$10,000 investment made in June 2006 would be worth approximately \$240,846 today. This growth is inclusive of the 2009 Great Recession, the European debt crisis of 2012, the pandemic in 2020, and the dramatic rise in global interest rates starting in 2022. This is the true power of compounding.

Traders who sell Parker Hannifin based on the SpaceX panic are missing the safety of a multi-year order backlog and decades of operational excellence. The company remains a premier industrial supplier perfectly positioned to profit from the next aerospace boom.

**Action: Buy on any pullback to \$870. Price target \$1,250 within 24 months (+43.7%).
Long-term hold.**

Amphenol (APH)

Terrestrial Realities and Space-Based Myths



Five-year total return: +400.2%. CAGR: 38.0%. Source: Fiscal.ai.

It reads like science fiction. AI data centers are moving to space. That highly speculative threat is the reason behind the panic selling of Amphenol shares. The financial media reacted wildly after SpaceX filed plans with the Federal Communications Commission to launch up to one million computing satellites. Short-term traders worry that these orbital networks will bypass earthbound facilities entirely, crushing the terrestrial data center pipeline that drives Amphenol's growth. However, this narrative ignores basic launch economics. Because low Earth orbit satellites burn up after five years, SpaceX would have to launch roughly three rockets every single day throughout the multi-decade lifecycle of the constellation, merely to maintain the fleet.

Betting against Elon Musk is historically a losing proposition. SpaceX disrupted global launch economics by perfecting reusable rocketry, and Tesla forced automotive electrification. However, putting giant artificial intelligence data centers into orbit presents severe thermal, power, and connectivity challenges. Even if successfully deployed, these orbital constellations cannot replace terrestrial facilities. Proximity to end users guarantees that land-based infrastructure remains the premier real estate for low-latency computing.

The true growth engine for this business remains firmly on the ground. Amphenol manufactures the high-speed connectors and fiber-optic cables that link artificial intelligence servers together. Without these components, data moving between processors slows down, making the fastest silicon chips useless. This crucial role makes the company highly profitable. First-quarter 2026 sales hit a record \$7.62 billion, a 58% increase over the prior year. This growth was led by its information technology and data communications division, which accounted for 41% of total sales. Virtually all of the organic growth came from accelerated demand for artificial intelligence applications, which require highly complex, physical hardware connections.

Outstanding financial results prove that Amphenol holds strong pricing power. The company achieved an adjusted operating margin of 27.3% during the first quarter, proving that customers value its specialized parts. Furthermore, the firm booked a record \$9.43 billion in new orders. This huge pipeline means new contract wins outpace current shipments, pushing second-quarter sales guidance to a range of \$8.1 billion to \$8.2 billion.

This kind of performance is not a one-off. Looking back over 20 years reveals how beautifully this business compounds capital. The split-adjusted share price of Amphenol in June 2006 was only \$3.50. With the stock now trading at \$165.76, that represents a 21.28% annualized price growth rate excluding dividends and special payments. Turning a \$10,000 investment into approximately \$473,600 over two decades shows that management has been performing well for a generation and counting. Investors do not need to hunt for elite returns in risky tech startups. Amphenol simply outgrew every economic crisis by becoming an irreplaceable supplier to the electronics industry.

Elon Musk's business acumen aside, trimming or selling this position because of orbital satellite headlines is an unforced error for longer-term investors. The real-world growth pipeline for earthbound data centers is highly visible and backed by billions in locked-in corporate spending.

**Action: Buy on weakness toward \$145. Price target \$200 within 24 months (+37.9%).
Long-term hold.**

Stay Focused on the Moat

This month's takeaway.

This month began with a clear lesson from the Ferrari Luce overreaction, but the knee-jerk error made by traders is identical across all three businesses. They reflexively sold the shares of elite, highly focused compounders based on a nonsensical technology headline. They confused a change in where data centers ultimately sit with a drop in demand for the parts inside them.

Parker Hannifin and Amphenol operate in different industrial sectors. Yet both companies have proven, focused executive teams that prioritize engineering breakthroughs over public relations. Each business builds the unseen, indispensable hardware that makes advanced technology function. Long-term investors should look past flashy rhetoric, identify the true economic engine, and let compounding do the heavy lifting.