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AI is a big bet on the future, with profits accruing to those investors who get it right. But here's one bet on the potentially game-changing technology that is all but a sure thing for all investors: the tech sector wildly over-estimates and over-invests in building out AI infrastructure, creating a kind of financial black hole that eventually collapses on itself.

The pattern is predictable. First comes the boom and then the bust. It is only in the aftermath will investors see what the technology can truly do.



Up 116 points! If only we had the foresight to invest ten minutes ago!

This is not a contrarian prediction, it's just what tends to happen when you take revolutionary technology and apply infinite funding with zero accountability for long enough.

It's how the dot-com bubble went down, where the telecom industry spent far too much money laying fibre-optic cable that was mostly unused for years to come. The bubble burst and investors big and small lost fortunes. But the groundwork was laid for the internet age, which really did change the world.

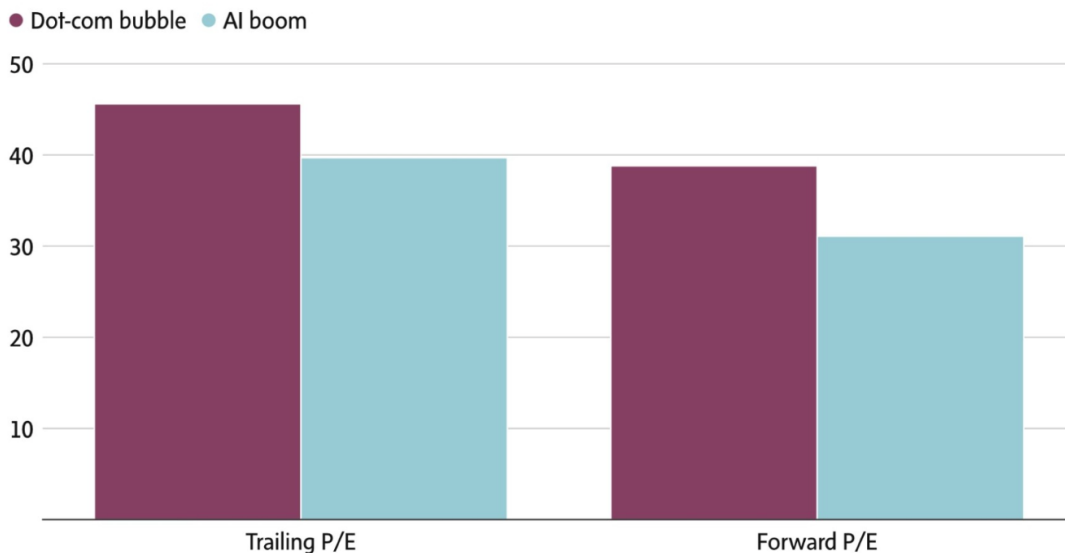
The over-riding question for investors today is *when does the AI boom reach its tipping point?* The combined market capitalization of the Magnificent Seven stocks is roughly \$20 trillion, representing slightly more than a third of the S&P 500's total value.¹ Their average P/E multiple is roughly 50% higher than the remaining 493 stocks that comprise America's broadest measure of US stocks.²

More, since ChatGPT launched three years ago, AI-related stocks are responsible for generating 75 percent of S&P 500's return, 80% of earnings growth and 90 percent of capital spending growth.³ Spending on data centres in the U.S. is on the verge of eclipsing spending on the construction of office buildings.

For these reasons, Big Tech valuations are high, but are still below that of the dot-com era. Whether that distinction matters all that much to investors remains to be seen. It also remains to be seen as to how long irrational exuberance will persist, before pessimism takes hold. Bubbles have a way of continuing to expand even where warning signs persist.

Big Tech valuations are high, but not record high

Price-to-earnings ratios for the 10 biggest stocks in the S&P 500



THE GLOBE AND MAIL, SOURCE: STANSBERRYRESEARCH.COM

Investors are asking themselves whether this is 1996 or 1999? Will the AI bubble continue to grow or will some factor (a Trump tweet for example) be enough to pop it?

Investors will know the answer to this sooner or later. And if you're all-in on AI the outcome is not looking too good. Our portfolios have exposure to AI to varying degrees, but our investment thesis is founded on fundamentals: earnings growth, strong balance sheets and dividend-paying/growing companies with attractive valuations and a compelling business model. Slow and steady wins the race over the long term.

Thanks for reading!

Martin

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Source 1: Stock Analysis (<https://stockanalysis.com/list/magnificent-seven/>)

Source 2: Goldman Sachs (<https://www.gurufocus.com/news/2872887/magnificent-7-trades-at-seven-year-low-valuation?>)

Source 3: The Globe And Mail ([TheGlobeAndMail/investing/markets/inside-the-market/article-we-know-how-this-stock-bubble-will-pop-weve-seen-it-before/](https://www.theglobeandmail.com/investing/markets/inside-the-market/article-we-know-how-this-stock-bubble-will-pop-weve-seen-it-before/))

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