

December 2025

From the front page of Wednesday's WSJ:

Stocks Defy Tariff Jitters in '25

Trump's policies didn't raise prices as much as feared, with AI powering growth

BY DAVID UBERTI

The U.S. stock market is closing out 2025 near an all-time high, with the S&P 500's 17% gain vaulting the index toward its seventh-best three-year run on record.

The yearslong rally appeared to end abruptly in the spring with the rollout of President Trump's "Liberation Day" tariffs and the emergence of "Sell America" trades that bet on the U.S.'s retreat from the world stage, only to roar back to life within weeks.

The slowdown foreseen by many on Wall Street never materialized in full. Tariff exemptions and a slew of trade deals limited the inflationary effects of the highest import taxes in decades. And an artificial-intelligence arms race triggered a capital-spending boom of epic proportions, propelling growth, minting millionaires—and leaving the U.S. stock market even more top-heavy than before.

Nvidia's 40% climb this year lags behind Broadcom's 51% advance and farther still from Alphabet's 66% rally. But those gains look pedestrian next to Advanced Micro Devices' 78% run-up. Palantir skyrocketed 139%. Micron Technology posted a 248% increase.

The Dow Jones Industrial Average is up 14% this year, while the Nasdaq composite gained 21%. On Tuesday, the S&P 500 inched 0.1% lower and the Nasdaq ticked down 0.2%. The Dow fell 0.2%, or 95 points.

Even as China's export machine grew in the face of Trump's trade policies, pressuring economies around the world, much of Wall Street still views U.S. tech companies as pre-eminent. Broadcom plus the Magnificent Seven, which includes Amazon, Meta, Tesla, Apple and Microsoft, account for 40% of the S&P 500's market cap, according to Dow Jones Market Data. That is more than double the 15% commanded by the index's eight biggest names a decade ago. ...

That concentration at times brought more turbulence to the markets this year, be it from April's tariff announcements, Chinese AI advances or construction delays at data-center projects. In November, an information vacuum during the government shutdown and scrutiny of AI returns sent markets into a tailspin.

But with each setback, Wall Street traders and individual investors stepped up to buy the dip. The S&P 500 is up 38% from its lowest close in April.

Surprisingly resilient consumer spending shored up an uncertain economic backdrop. ...

While rich asset owners plowed money into homes, cars and more, analysts warn stress among lower- and middle-income Americans could destabilize the economy. Inflation remains elevated. Job growth has slowed to a near-standstill. Unemployment is rising.

In their outlook for 2026, JPMorgan Chase economists said the “jobless expansion” might mean productivity growth will continue to boost wage and wealth gains that help the economy plow ahead. On the other hand, weakness in the labor market—and all the spending that depends upon it—might signal more fragility ahead.

“The juxtaposition of an acceleration in business spending alongside a material softening in job growth is unprecedented in the global economy over the past quarter-century,” they wrote. “In the U.S., this juxtaposition is not evident in over 60 years of history.”

The bank’s analysts remain “constructive” on stocks despite the risks of an overly concentrated market. Goldman Sachs’ baseline forecast is similarly “friendly” for equities in part due to tax breaks by Washington and the Federal Reserve’s interest-rate cuts.

On Tuesday, released minutes from the central bank’s December meeting showed officials are divided on the path forward. Futures markets are pricing in a coinflip’s chance of at least two more quarter-point rate reductions by the end of 2026, according to CME Group.

Though bonds rallied this year, Treasury yields remained relatively stable since the Fed began cutting last year, pressuring businesses that need to borrow and keeping mortgage rates far above prepandemic levels. The 10-year yield settled Tuesday at 4.128% (but at 4.19% on Friday).

“It’s a sign of a healthy economy,” said David Stubbs, chief investment strategist at AlphaCore Wealth Advisory. “The U.S. is a lot better with rates at 4% than at 2%. At 2%, you’ve got a problem.”

As Wall Street moderated its outlook from the depths of April’s market tailspin, the U.S. dollar stabilized after its worst first-half plunge in 50 years. But wild trading in other corners of markets continued. Gold and silver traded like meme stocks en route to their largest one-year gains since the inflationary shock of 1979. Bitcoin plunged in recent months and is on track to finish the year below where it started.

As investors look toward next year, more are turning away from tech stocks and toward banks, materials firms and healthcare companies closely tied to the real economy. Others are looking abroad, where indexes in Japan, the U.K. and Germany outperformed their American peers this year. ...

From Global Investment Strategy’s Peter Berezin’s Thought of the Day on 16 Dec 2025:

Nasdog

The US remains dangerously dependent on the AI boom, without which the economy would probably already be in a recession.

As I discussed in my 2026 Outlook, [The Return of Nasdog](#) (we will share this far more extensive analysis with any clients requesting it), I think there is a high probability that the narrative around AI sours next year.

AI adoption rates already seem to be peaking. GPU rental prices are trending lower, as are LLM token prices.

Lower AI usage costs will open the door to new applications, but how much actual capex will be necessary to sustain the AI economy remains to be seen. It is worth remembering that internet traffic has grown at an annual rate of 43% over the past 25 years; and yet, the amount of investment necessary to sustain the internet has fallen in relation to GDP.

Cloud computing providers such as Microsoft, Google, and AWS have high profit margins now. However, that is partly because there is an industry-wide shortage of computing capacity. It does not make sense to cut prices if you cannot even meet existing demand.

This could easily change over the next few years, given the torrent of capital spending.

I was struck by a story earlier this month about how [AT&T is suing T-Mobile](#) for offering AT&T customers the ability to enter their username and password into T-Mobile's app to find out how much money T-Mobile can save them by switching carriers. This is the sort of thing that can happen even in "oligopolistic" industries where the only way to grow is by taking market share from your competitors.

A Bust in Two Stages

The equity bear market that began in March 2000 unfolded in two stages. The first stage saw a massive rotation from tech to non-tech. IT shares fell by 55% from March 2000 to May 2001, while non-tech gained 11% (Chart 7).

It was only in the second stage, when the economy entered the throes of a recession, that the whole stock market came tumbling down.

My guess is that we will see a similar pattern in 2026. In the first half of the year, we will see a rotation from tech to non-tech and from growth to value stocks. ...

In the second half of 2026, the ensuing AI capex bust will push the whole economy into a recession, at which point bond yields will fall. ...

From alpha architect:

Is Trend Following Better than "Buy the Dip"?

By Larry Swedroe | December 12th, 2025

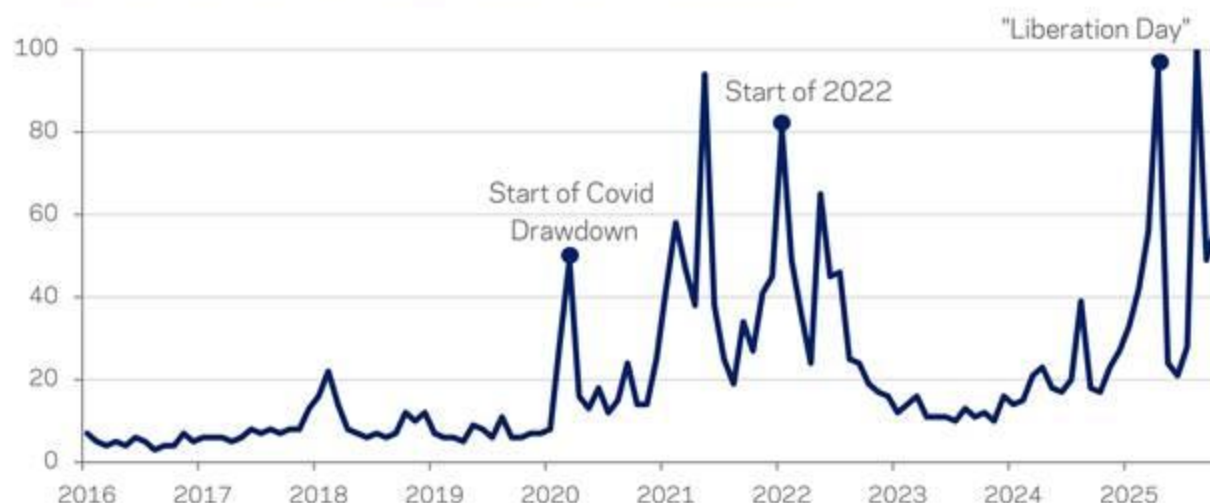
"Buy the dip" (BTD) has become one of the most popular investment mantras of recent years, especially since the COVID-19 market recovery in 2020.

Chart 7
A Tale Of Two Markets During The Initial Innings Of The Dotcom Bust



Exhibit 1: Interest in BTD Tends to Spike After Short-Lived Drawdowns

Google search activity for "Buy the Dip," October 2015 - October 2025



Source: AQR, Google Trends. Google Trends data displays relative search interest from a sampled subset of Google searches, normalized by total searches for the selected region and time, and indexed 0-100 (i.e. 100 = peak popularity).

The strategy seems intuitive: when markets fall, buy at a discount and wait for the inevitable rebound. However, BTD is not foolproof. By design, it performs well when market declines are brief, but poorly when declines mark the beginning of a prolonged drawdown. A new [paper](#) from AQR Capital Management, “Hold the Dip,” examines the empirical evidence and puts this popular strategy to the test.

What the Authors Examined

The research team at AQR conducted a comprehensive analysis of “Buy the Dip” (BTB) strategies applied to the S&P 500 from January 1965 to September 2025. Rather than testing just one version of the strategy, they created 196 different variations by combining:

- **Four dip depths:** 5%, 10%, 15%, and 20% price declines.
- **Seven dip lengths:** ranging from one week to one year.
- **Seven holding periods:** from one month to five years.

For each variation, the strategy bought the S&P 500 after a specified decline and held it for the designated period, remaining in three-month T-bills otherwise. The authors then compared these BTB strategies against simple buy-and-hold investing.

The Key Findings: BTB Disappoints

1. Lower Risk-Adjusted Returns Than Passive Investing

Across all BTB strategies, the average Sharpe ratio (SR) was -0.04 less than equities (about a 16% degradation to holding equities passively), with over 60% of BTB implementations underperforming by this metric. Using more recent data from 1989 onward, the picture was even worse—the SR of these strategies was -0.27 worse than holding equities passively—a 47% degradation in risk-adjusted returns.

Exhibit 3: BTD Earns Lower Risk-Adjusted Returns than Passive

Sharpe Ratio, January 1, 1965 - September 30, 2025



2. No Meaningful “Alpha”

Even when accounting for the fact that BTD strategies spend time in cash (and thus have less market exposure), the authors found minimal evidence that BTD adds value. The average alpha across all implementations was just 0.5% per year, and only 16 of the 196 strategies (just 8%) showed statistically significant outperformance. In other words, BTD doesn’t appear to offer reliable market-timing ability.

3. The Momentum Problem

Why does BTD underperform? The authors identified a crucial insight: BTD is essentially “value investing at a momentum horizon.”

Markets tend to exhibit momentum over weeks and months—trends continue in the short term. Meanwhile, value strategies (buying when prices are depressed) tend to work over much longer periods of years. BTD tries to catch reversals at precisely the wrong timeframe, positioning investors against prevailing market trends.

4. Trend-Following Works Better

When the authors compared BTD to [trend-following strategies](#) (which buy when prices are rising and sell when falling), trend-following significantly outperformed. The SG Trend Index, representing major trend-following managers, delivered a 4.7% alpha to equities with a near-significant statistical result—far better than BTD’s 0.5% average alpha.

Most importantly, trend-following strategies excelled during major market downturns. During the four worst S&P 500 drawdowns since 2000 (each exceeding 20%), trend-following delivered an average return of +28.6%, while the average BTD strategy lost 18.4%. BTD tends to maintain long positions during extended declines, exposing investors to losses precisely when they can least afford them.

Exhibit 7: Trend Has Performed When Most-Needed

Cumulative return during worst drawdowns for the S&P 500, January 1, 2000 – September 30, 2025

Period	S&P 500	BTD (Average)	BTD (75 th Percentile)	BTD (25 th Percentile)	SG Trend
Oct 10, 2007 - Mar 09, 2009	-55.3%	-34.0%	-28.5%	-22.6%	31.7%
Sep 02, 2000 - Oct 09, 2002	-47.4%	-14.7%	7.8%	7.8%	51.4%
Feb 20, 2020 - Mar 23, 2020	-33.8%	-17.3%	-9.5%	-9.5%	-2.4%
Jan 04, 2022 - Oct 12, 2022	-24.5%	-7.7%	0.7%	0.7%	33.9%
Average	-40.2%	-18.4%	-7.4%	-5.9%	28.6%

It's important to note that all the BTD results were before considering any implementation costs.

Investor Takeaways

1. Don't Confuse Long-Term Optimism with Market Timing

Just because stocks tend to go up over time doesn't mean buying dips is a superior strategy. The belief that "prices will eventually be higher" was true before, during, and after any dip. BTD only makes sense if it identifies periods with better-than-normal near-term prospects—and the evidence suggests it doesn't.

2. Beware of Recency Bias

Interest in BTD surged after the quick 2020 COVID recovery and the 2025 "Liberation Day" rebound, but plummeted during the extended 2022 drawdown. Strategies that only look good after short, sharp declines may leave you exposed during the prolonged downturns that pose the greatest threat to long-term goals.

3. If You Want to Time Markets, Align with Momentum

The research suggests that if investors insist on [tactical timing](#), they're better off following trends rather than fighting them. Trend-following has historically provided diversification benefits and downside protection during extended market stress. ...

The Bottom Line

"Buy the dip" makes for a catchy slogan, but it doesn't hold up as a systematic strategy. The research reveals that BTD typically positions investors opposite to momentum, leading to underperformance — especially during the extended downturns when protection matters most.

Rather than trying to catch falling knives, investors may be better served by either staying consistently invested or, if they insist on tactical positioning, aligning with rather than against market trends. As the authors conclude, while BTD has captured investors' imagination, it hasn't captured excess returns.

Larry Swedroe is the author or co-author of 18 books on investing, including his latest [Enrich Your Future](#).

From Morningstar:

FOMO Can Lead to Lower Returns. Don't Fall For It

A new study reveals that the fear of missing out isn't just a meme—it's a measurable force that quietly steers the market.

Larry Swedroe Dec 4, 2025

Financial markets aren't just driven by cold, hard numbers and rational calculations. Decades of research in behavioral finance have revealed that human psychology plays a crucial role in how markets move. Behavioral finance examines how emotions, cognitive biases, and social influences affect investor decisions—often leading to outcomes that traditional financial theory can't explain.

Among the many psychological forces at play, the fear of missing out, or FOMO—that anxious feeling when we see others profiting from an investment opportunity and worry we're being left behind—has emerged as a particularly powerful driver of market behavior. In financial markets, FOMO can trigger speculative surges, fuel herd behavior, and contribute to volatile market cycles. Think of the GameStop stock frenzy, bitcoin's meteoric rises, or any market bubble where investors pile in, afraid of missing the next big thing.

While FOMO's influence has been widely acknowledged anecdotally, measuring it systematically across global markets has remained a challenge—until now.

Introducing the Global FOMO Index

Yosef Bonaparte, author of the May 2025 study "[Global FOMO: The Pulse of Financial Markets Worldwide](#)," introduced the Global FOMO Index, a novel way to quantify this psychological force using data from Google searches.

The index tracks six key search terms from 2004 through 2024:

- "FOMO"
- "Buy Stock"
- "Get Rich Quick"
- "Missed Out"
- "Trending Now"
- "Bitcoin Price"

Each term captures a different facet of FOMO-driven behavior, from the explicit anxiety of missing out to the actionable intent of jumping into markets. By combining monthly Google Trends data for these terms, Bonaparte created a composite measure that reflects the pulse of global investor sentiment.

The index revealed a clear upward trend over two decades, with dramatic spikes in 2018 and 2021 coinciding with bitcoin hitting \$20,000 and \$69,000, respectively. The index reached a new peak in 2025 after President Donald Trump's reelection and bitcoin surging past \$100,000—demonstrating how political events and cryptocurrency milestones amplify speculative interest.

Perhaps most striking is the index's statistically significant persistence: With a serial correlation coefficient of 0.991 (t-stat of 68), the FOMO sentiment is highly predictable and stable over time, making it a reliable metric for understanding market dynamics.

FOMO's Impact on Markets

The research reveals three significant relationships between elevated FOMO and market outcomes:

1) Lower Returns

Contrary to what you might expect, periods of heightened FOMO are associated with lower stock market returns—specifically, a decline of 1.7% to 2%. This suggests that when collective excitement peaks, the party is already over.

2. Reduced Volatility

Elevated FOMO correlates with decreased market volatility by approximately 2%. This counterintuitive finding suggests that when investors converge in their sentiment-driven behavior—all responding to similar cues and information—markets become less uncertain in the short term. The crowd moves together, creating temporary stability.

3) Weaker Risk-Adjusted Returns

The most concerning finding for investors is that high FOMO periods are associated with a 4% decline in Sharpe ratios (which measure risk-adjusted returns). Markets become less efficient when FOMO takes the wheel.

The Democracy Factor

One of the most intriguing discoveries in the research is that FOMO's impact isn't uniform across countries—it's significantly stronger in democratic nations.

Using the Economist Intelligence Unit's democracy scores, Bonaparte found that the relationship between FOMO and market outcomes is amplified in more democratic countries. Why? In democracies, investor behavior appears more responsive to collective sentiments, online narratives, and media-driven stories. The free flow of information and social influence that characterizes democratic societies may make investors more susceptible to FOMO-driven decision-making.

This finding highlights an important political dimension to market psychology: The institutional environment in which investors operate shapes how sentiment translates into market outcomes.

His findings led Bonaparte to conclude, "Heightened FOMO predicts lower returns, reduced volatility, and weaker Sharpe ratios, with a stronger effect in democratic countries."

Key Takeaways for Investors

What should investors learn from this research? Here are the practical implications:

1) Recognize FOMO as a Contrarian Indicator

If you feel an overwhelming urge to jump into a hot investment because “everyone is making money,” take a step back. The research suggests that peak FOMO often signals lower future returns and poor risk-adjusted performance. Your anxiety about missing out may actually be protecting you from buying at the top.

2) Question the Herd

The reduction in volatility during high-FOMO periods creates an illusion of stability. Just because markets seem calm and everyone is moving in the same direction doesn't mean it's safe. This behavioral convergence can mask underlying risks and lead to complacency.

3) Focus on Risk-Adjusted Returns

The decline in Sharpe ratios during FOMO periods is a clear warning: Chasing excitement often means accepting poor returns relative to the risks you're taking. Stick to disciplined investment strategies that prioritize long-term, risk-adjusted performance over fear-driven speculation.

4) Be Aware of Your Environment

If you're investing in democratic countries with high media saturation and social media influence, recognize that you may be more vulnerable to sentiment-driven mistakes. The same openness that makes these societies dynamic can amplify psychological biases in financial decision-making.

5) Use FOMO as a Tool, Not a Guide

The Global FOMO Index can serve as a valuable sentiment indicator—a gauge of when collective emotion is running too hot. Rather than following FOMO, savvy investors might use it to identify periods of excessive optimism that warrant caution.

Psychology, Technology, and Politics

This research contributes to our growing understanding of how psychology, technology, and politics intersect in modern financial markets. The Global FOMO Index demonstrates that behavioral forces can be measured, tracked, and understood systematically - not just dismissed as irrational noise.

As digital media continues to accelerate information flows and amplify social influences, understanding sentiment-driven behavior becomes increasingly critical. FOMO isn't just a millennial buzzword; it's a measurable psychological force with real financial consequences.

The next time you feel that nagging anxiety about a hot investment opportunity, remember that FOMO might be the very thing helping you avoid a poor investment decision. In markets as in life, sometimes the best move is the one you don't make.

Follow-ups

From WSJ:

When Your Private Fund Turns \$1 Into 60 Cents

As nontraded funds go public, the market is deciding they aren't worth as much as managers say

By *Jason Zweig*
Dec. 19, 2025

For all fund investors, NAV is supposed to stand for “net asset value.” For some, however, it’s turning out to mean “not actual value.”

That’s the hard lesson of recent weeks when some funds that invest in private assets have sought to become publicly traded. Prices that investors expected to be stable have collapsed as soon as the portfolios were exposed to public markets.

These transitions from private to public cast doubt on Wall Street’s narrative that investors can have their cake and eat it, too. You can have the mild price fluctuations of nontraded assets, or you can have access to your money whenever you want—but it’s turning out that you can’t have both.

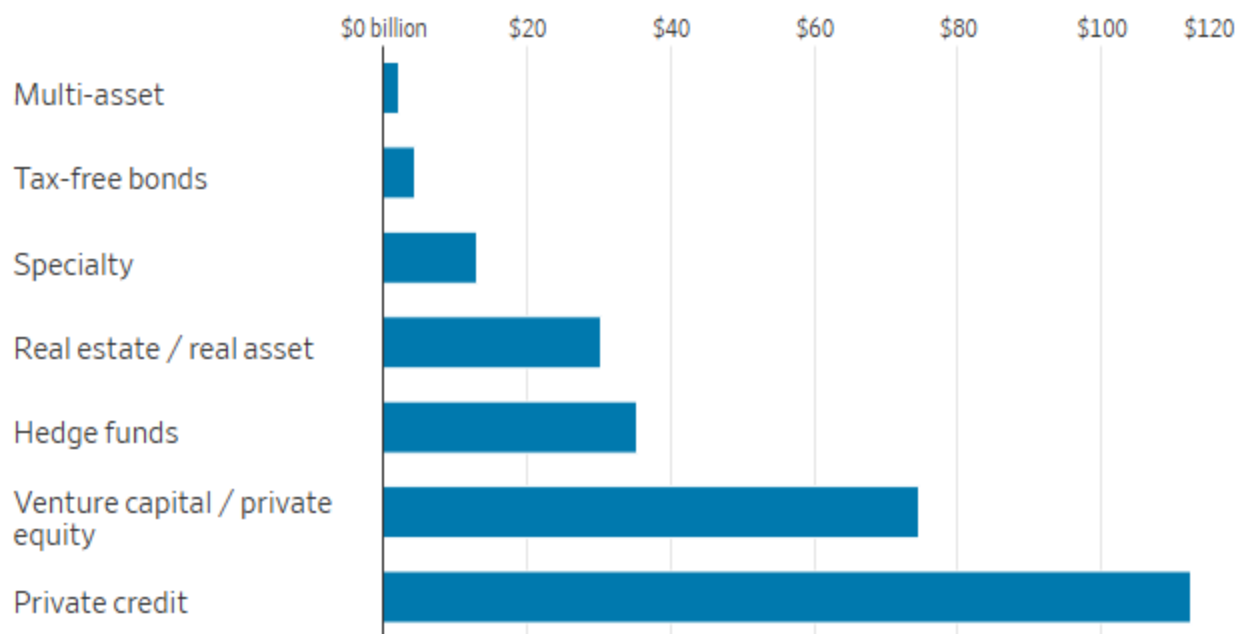
And this situation bolsters arguments that asset values in private-markets funds don’t always reflect reality.

On Dec. 16, what used to be a nontraded portfolio called [Bluerock Total Income+ Real Estate Fund](#) began trading on the New York Stock Exchange as the [Bluerock Private Real Estate Fund](#). With a stated net asset value of \$24.36 a share, the fund closed at a market price of \$14.70—a 39.7% discount from NAV. For every dollar the fund manager said your shares were worth at 9:30 a.m., the stock market was willing to pay you only 60 cents by 4 p.m.

On Nov. 13, another nontraded investment, [FS Specialty Lending Fund FSSL](#), listed on the NYSE at a net asset value of \$18.67—and closed the day at \$14, a 25% discount from NAV.

Meanwhile, other private portfolios seeking to list publicly have gotten stymied.

Non-listed closed-end funds



Note: Total managed assets as of Nov. 30.

Source: XA Investments

This week, Priority Income Fund adjourned its annual meeting that had been scheduled for Dec. 16. Shareholders were asked to approve a proposal relating to a potential public listing. The provision would have limited the ability of existing investors to sell all their shares until 270 days after the fund begins trading. The fund has extended the voting period.

In November, [Blue Owl Capital](#) aborted a plan to merge one of its private funds into an NYSE-listed vehicle that was trading around then at roughly a 20% discount to NAV.

You don't need a class in economics to know the most fundamental fact about prices: Any asset is only worth what you can get someone else to pay you for it.

That's why these recent deals are such a shock to the system. All these funds started out as nontraded entities—meaning that investors could sell only at specific times, as with Bluerock or Priority Income. Or investors could sell only limited amounts until the managers created a future “liquidity event,” as with FS Specialty Lending and Blue Owl Capital II.

That meant you [could lock your money up](#) for the long run in such potentially high-yielding assets as commercial real estate or private lending, sheltered from the upsetting fluctuations of public financial markets.

The managers could put your money into investments that sometimes take years to pay off. They [could crank up the returns](#) with borrowed money without having to worry that you'd want to pull out in a downturn. And they could earn annual management fees of 1.5% and up.

Often, performance was strong, although some private markets began seizing up in 2022 and 2023. Then [certain funds struggled](#) to meet even the limited demand for periodic liquidity they had promised to investors.

Ramin Kamfar, chief executive of Bluerock, says he isn't surprised that its Private Real Estate Fund has begun trading so far below what his firm states the shares are worth.

After its earlier respectable performance flagged in the past three years, more investors had been asking to cash out than the fund's previous structure could accommodate. Now, they're lined up to sell, so there's a “temporary supply and demand imbalance,” Kamfar says.

Before, Bluerock investors could cash out no less than 5%—but no more than 25%—of their holdings per calendar quarter. Now, they can dump their entire position in a single trade, with an important difference.

Before, investors could do those partial sales quarterly at net asset value. Now, they can sell out completely, anytime—but only at the price *someone else* is willing to pay.

And other people aren't willing to pay anywhere near what Bluerock Private Real Estate or FS Specialty Lending say their assets are worth. FS says it's “fully confident in the fund's potential to create lasting value.” Kamfar says the Bluerock fund's market price should converge toward net asset value over time. That's not a sure thing, though.

To be fair, most funds (or their close relatives, business-development companies) that are newly listed on the stock exchange tend to trade at less than net asset value. That's partly because of the costs and risks that come with portfolios of unusual assets that are sometimes leveraged with borrowed money.

But it's hard to overlook the irony here. For years, the managers of many of these funds have been marketing them as a way to escape the volatility of public markets. “And now, they're just throwing them onto the [stock]

exchange,” says John Cox, CEO of Cox Capital Partners, an investment firm in Philadelphia that offers to buy illiquid portfolios.

FS Specialty Lending, Blue Owl Capital II and Priority Income had previously told investors that they could list publicly—someday.

More transitions like these are inevitable, says Leyla Kunimoto, an individual investor who blogs about private funds at AccreditedInsight.com. That’s because as soon as returns falter at such private funds, investors start demanding their money back at NAV. That can rapidly shrink the funds—and their managers’ fees. So some managers take them public in self-defense.

Most of all, these switches from private to public highlight a deeper risk. As Kunimoto says, private-fund valuations are often “a figment of imagination.”

The fund managers say their valuations of private assets are accurate and fair. When these funds hit the markets, though, investors are getting a shocking lesson in how subjective valuations can be.

The Trump Family Business Empire Is Growing. ... A second-term boom in crypto and other areas has created billions in new wealth for the first family on Dec. 18th: <https://www.wsj.com/politics/trump-family-business-visualized-6d132c71?mod=djemPolitics>

From WP:

‘Circularity’ is a flashing warning for the AI boom

Wall Street’s buzzword for investors was known as “round-tripping” during the dot-com years.

December 8, 2025

The buzzword “circularity” has gained prominence this year as a note of caution about the companies building out massively expensive infrastructure needed to support mind-bending artificial intelligence applications. Big Tech leaders — including OpenAI, Nvidia, Google, Oracle, Meta and others — are investing billions in each other and other companies, propping up one another’s finances, potentially beyond where logical and prudent spending would otherwise have taken them.

The money flows in a circular fashion — from one company to another and then back again, ultimately, to where it started — not necessarily creating value along the way. The term is meant to warn investors to temper their AI exuberance by explaining one of its chief risks, namely that feverish periods of investment drive booms that lead to busts. If the pumping up isn’t warranted, the puncture is all the more painful.

Wall Street loves its catchphrases, the better to simplify esoteric, tedious or just plain risible concepts. This year’s “TACO” trade, for instance, assured investors that “Trump Always Chickens Out,” making it okay to bet on stocks that otherwise might decline due to ill-advised tariffs. “SPACs,” flimsy investment vehicles for bringing shares of dodgy companies to public markets, is a whole lot more fun to write and say than special purpose acquisition companies.

What's amusing about "circularity" to market watchers of a certain age is that we've seen this movie before — but under a different name. During the dot-com bubble of the late 1990s and early 2000s, such deals were referred to as "round-tripping." One company invested in another, which turned around and used those funds to buy products from the first company. The money made a round trip, puffing up performance without creating profits.

Round-trip, or circular, transactions are not necessarily wrong, though they can be. In some dot-com-era cases, individuals authorized payments and counter-payments intended to bid up the value of two companies, not conduct legitimate business. Executives, notably some who worked for and with the former media giant AOL Time Warner Inc., [got into serious legal trouble over this](#).

Well-traveled money has become the coin of the realm in the AI boom. In September, AI chip king Nvidia announced it would [invest \\$100 billion in OpenAI](#), the start-up behind the wildly popular ChatGPT. OpenAI promptly unveiled [massive investments in SoftBank and Oracle](#), which are building gargantuan data centers that run on, you guessed it, Nvidia chips. In other words, Nvidia helped to finance the purchase of its own products by investing, directly and indirectly, in its customers — a perfectly legal, if concerning, round trip of capital.

The concern is that demand for AI's new products might never catch up with the capacity the industry is building. That's essentially what brought low so many internet companies a generation ago. There was simply too much capital chasing too few good start-ups — and not enough customers to keep them all afloat.

What typically happens at this stage of a speculative boom over a justifiably exciting technology is that some investors begin to fret, which is inevitably followed by stay-the-course, this-time-is-different tut-tutting from market professionals whose livelihoods are predicated on the party continuing.

"While some caution is warranted, we think the better question is not whether today's deals resemble the dot-com era, but whether the underlying fundamentals do," [wrote JP Morgan Chase's Stephanie Aliaga and Nicholas Cangialosi](#).

There are differences from the earlier era, as there always are. Some of the companies involved, notably tech stalwarts like Google and Meta that got their starts during or just after the dot-com debacle, generate so much cash that even overinvestment doesn't constitute an existential threat for them. In that sense, their fundamentals are indeed solid.

Yet they and others are borrowing so much to build out AI data centers — Morgan Stanley [has estimated](#) that \$1.2 trillion will be borrowed over the next three years by just a few AI giants — that if the products they support don't perform as planned, the losses could be so big they would rock the economy.

All this is confusing for investors, professional and armchair alike, because no one knows when the frenzied activity will end. We merely understand that eventually it will. What the AI boom has in common with the dot-com bubble is that it is built on top of a genuinely new and paradigm-changing technology. The internet really did sink entire industries, create new globe-spanning corporations and change society as we understood it — just as its enthusiasts said it would. That didn't mean that every company survived. Many were also-rans; some simply were too early.

It will be the same with generative AI, whose innovative ability to do things once the sole preserve of humans will touch nearly every aspect of our lives.

What AI won't change is that investments only work if the financial returns justify them. It also can't dampen the animal spirits of investors who think this time is different. They'll have to learn the old-fashioned way.

By Adam Lashinsky

Adam Lashinsky is an editor-at-large for The San Francisco Standard and author of "Inside Apple: How America's Most Admired — and Secretive — Company Really Works."

Positions

As a general rule we sell any individual stock with a 20% or greater loss that we no longer consider a buy at the end of the year in all accounts, and may do so in taxable accounts even if we still consider the stock a buy and there is an equally attractive opportunity, or we believe it is likely that we will be able to profitably reenter the position after the 30 day wash-sale rule has expired. We have sold all positions in the following stocks: BGSF, CRGY, IMMR, NSA.