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It's a Wonderful Life

When it comes to the debate between the speculators and savers I take the side of the savers. I'd rather lose purchasing power slowly than take the risk of losing a lot of money quickly. The time machine hasn't been invented, not yet anyway; we cannot go back and make it over again.

While the difference between saving and speculating is clear, the difference between investing and speculation can be a matter of perspective. In my view, speculation has become a major driver of the performance of stock indexes. Recent estimates indicate that "AI plays" are responsible for more than half of the returns of the S&P 500. Index concentration in technology companies is higher than the "dot com" bubble days. I remember those days well.

In the movie *It's a Wonderful Life,* George Bailey passes on Sam Wainwright's offers to get in on exciting new opportunities in plastics and Florida real estate. In the movie those bets worked out well for Sam. In real life, Liberty Films borrowed heavily to make *It's a Wonderful Life,* which failed to recoup production costs at the box office and forced the company to sell out to a rival to avoid bank foreclosure.

It's a Wonderful Life would go on to become a beloved American classic. Those who take too much risk early can miss out on long-term gains. The value creation of the internet has exceeded the most optimistic projections, yet most early investors lost money. I think AI's path will be similar; the long-term value creation will exceed expectations, yet most early investors will lose money.

"AI plays" have led market indexes to record highs as speculators fund expensive projects with lofty expectations. Disciplined investors basing decisions on due diligence— an analysis of competitive landscape, customer demand, financial strength, cash flow, and valuation— have trailed index funds and are dismissed by the market crowd as too conservative.

The upside of rampant speculation and near-universal indexing is that investors making decisions based on investment principles are in a small minority. It seems speculators think investment research is a waste of time and indexers think it's a waste of money. In my view, indexing works well when investors are driving market prices but is dangerous when speculators are behind the wheel. Years of strong stock market returns have led to a general attitude that making money in the market is free and easy. In my experience, when market participants are carefree, it's vitally important to be careful. It is precisely in times like these when investment research and due diligence make the greatest difference.

This holiday season I encourage you to watch *It's a Wonderful Life.* It's become a Christmas tradition at my house. And, if you're not already using AI, I encourage you to experiment with AI apps-- there are several good ones available for free. I think you'll be amazed. The promise of AI is beyond our imagination. We can be grateful to the early investors and eager speculators for funding the massive capital required to launch the AI era. They are creating wonderful opportunities for those willing to do the work required to capitalize on AI long term.

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