

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, OCTOBER 10, 2025

Please note that this podcast transcript was machine generated. As a result, it may not always read smoothly, as it reflects unedited spoken content. For the clearest understanding of the podcast's content, we recommend listening to the podcast itself. For complete clarity on the topics addressed, we encourage you to always read the related Dividend Cafe missive and related communications at dividendcafe.com.

Hello, and welcome to a very special Dividend Cafe. My name is David Bahnsen. I am the Chief Investment Officer here at The Bahnsen Group, and today we're gonna be talking about our investment philosophy. In this moment of the AI revolution, I wanna start with two quotes. From money managers, both of whom are personally multi-billionaires, both of whom are people we have known for quite some time, both of whom are people.

We look up to a great deal and have a track record to warrant our respect. And I wanna read these quotes. To you so you can contrast as I set up our topic today in the Dividend Cafe one, AI is a revolution and when something is revolution, you don't ask questions, you back up the truck and just buy. I can see something's going up.

10 x from here with eight to 10 trillion dollar valuations a norm. Okay? Number two. This entire AI setup is extremely concerning. We are certain we have seen this movie before and we are going to do whatever we can to avoid the carnage that is coming. I am being asked more than at any point I can remember in my.

25 years of professionally managing money. If we're going to adjust what we do or put our normal investment philosophy on pause for this particular moment in which we find ourselves in an AI craze where certain companies are going through the roof where there is this tremendous optimism, some of which we believe is entirely understandable, some of which may prove not to be.

We're gonna unpack all of that here today in the Dividend Cafe. But I'm being asked over and over if we want to adjust and then. Maybe come back in to what we normally do with dividend growth, investing a little later after this AI period plays out for a bit. Get on the sideline, come back in, violate what you believe in because hey, this thing is a revolution, and you don't ask questions in a revolution.

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, OCTOBER 10, 2025

I hope that out of today's Dividend Cafe, you will not only better understand what we believe about managing money and why, but you'll better understand what this actual AI moment is, what is happening, pushing certain stock prices higher, and what some of the outcomes may very well prove to be. It's a Dividend Cafe that I enjoyed writing a great deal.

I want to now. Deliver its message to you, listening to the podcast, watching the video, and I hope it will be instructive as we intended. We're gonna start with what I think is just the basic reality of what's happening in the AI moment. That is. Those who sell or design semiconductor chips that are related to artificial intelligence applications are doing very, very well in their stock price.

Number two, those who purchase those chips the basic computing systems necessary to drive an infrastructure related to ai. Are doing very, very well. These types of companies are often referred to as hyperscalers, and number three is those that are just somewhat adjacent to ai, but then do a good job marketing or branding themselves as being an AI play.

And that has always been a dynamic, a public market investing. When you get a moment like this, whether it was.com or. Or crypto or cloud or whatever it does, whether your business is fundamentally in that space or not. Sometimes the third category are just people that decide to go put some branding on it around the that phase.

We're primarily concerned both with number one and number two today because I think those are where the questions exist. As to how this is going to continue and whether or not we need to go jump on in. Whereas with number three, I think there are more reasonable people that are more reasonably prepared for the reasoned response.

That such scam connectivity to this moment is not necessarily sustainably investible, but others do wonder if the other categories are, and that's what we're gonna kind of examine. I have talked a lot and others have been having this conversation more recently as well about the so-called circularity problem in this AI investible thesis.

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, OCTOBER 10, 2025

And I wanna read directly from my own Dividend Cafe here so that I capture what we're really referring to. As succinctly as possible. The lion's share of investor gains so far in this story have come about as some companies are selling the powering ability of AI to customers called hyperscalers and the stock of hyperscalers has gone up because of their purchasing of AI computing power.

Now, in one easy summary, some companies are going up 'cause they're selling and other companies are going up 'cause they're buying. It's not necessarily a problem, but it leads us asking more questions. And before I get into the details of how this circularity cycle is playing out, I think it's gonna fascinate you.

I think it's helpful to unpack the details so people understand what really is going on, but I do want to bring it back somewhat philosophically to an investor that I do not very often. Quote or sight in my own analysis and in my own sort of cultural commentary. And that is George Soros, who's a pretty toxic figure politically.

And not necessarily one that I share a lot of common ground with from a worldview standpoint, but most certainly around his, reflexivity thesis provided the investing world with tremendous wisdom. There's plenty of others that could have formulated the same thing, but I think Soros did a wonderful job in his reflexivity theory explaining how markets are often driven.

Not just by objective reality, but by a perception of reality. Now, that's simple enough. That's not the heart of the theory, by the way, that sometimes people believe things that aren't true and act on it is true enough. And then there is of course, always the underlying truth or reality that can drive investment outcomes.

But what Soros taught us was that investor perception is material to fundamentals. In that it creates a self-reinforcing cycle where these perceptions of reality influence prices. Prices, impact fundamentals, and then those affected fundamentals. Now, shape perceptions, rinse and repeat that there is a sort of cycle at play that creates a feedback loop and it can enable this process to stray further and further from market equilibrium.

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, OCTOBER 10, 2025

From objective reality. The greater the distortion caused in this cycle, the more susceptible we are to booms and busts. And I don't think you have to be a fan of Soros to understand the wisdom of what he is referring to here. And you know, look, people's perceptions can be wrong and that creates a bad outcome.

That's simple enough. But what he's saying here. Is that in a distorted impact to prices, you get fundamentals that appear different and you respond to those different fundamentals now. And so it feeds on itself and there is this kind of reflexivity process that can become very, very distorted over time or create severe distortions in markets and the course correction.

To by which we go about rediscovering what is objective reality, the actual market truth and dynamic. It can be very skewed. It can be very prolonged. It can be very complicated and of course do some significant damage to investors along the way. The circularity in the AI thesis is that the hope and promise of a new technology, a hope and promise of a new technology that I share By the way.

Has understandably led to higher valuations, no problem. But that then those higher valuations are attracting more and more capital and this chasing of hope and promise. What. Aforementioned person referred to as a revolution is then used as the proof of the thing the capitol is chasing. The proof of what we're after with this ai story is the high valuations that are coming about as a result of all the capital chasing it.

That's the circularity issue here. What is it we're supposed to be after? Genuine productivity gains, genuine profit gains.

There is no need for this new technology to be monetized for investors when the monetization is coming to them before the actual monetization of the thing. The monetization is basically the elevated valuations, higher prices that are coming about from those who have the perception of this thing, this revolution Now.

This is structurally very dangerous. It has a number of ways in which it can play out, but I wanna explain to you in practice what I mean by this and how there's a

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, OCTOBER 10, 2025

cyclicality going on that I don't think very many people understand. I'm gonna quote right now from the head of investment strategy at JP Morgan.

Michael Symbolist, who had a quote that really kind of went viral on the internet and social media a week or so ago. And there's a link at Divin Cafe about all this and it's been heavily quoted in the news, but Oracle stock jumped by 25% after being promised \$60 billion a year from open ai.

An amount of money OpenAI doesn't earn to provide cloud computing facilities that Oracle hasn't yet built, and which will require 4.5 gigawatts of power, about four nuclear plants and two and a half Hoover dams that we don't have, as well as increased borrowing by Oracle, whose debt to equity ratio is already 500%.

The tech capital cycle is about to change. None of this, by the way, is a negative comment per se, on Oracle or Open ai, or Nvidia, or any of the companies that are involved in this. It's to explain what the cycle of gains exactly is. Okay. A company. Like OpenAI, who's the maker of chat, GPT was given a \$500 billion valuation in their latest funding round.

They have committed to buying \$300 billion of computing power from Oracle, 60 billion a year for five years. Oracle's committed to buying tens of billions of dollars of chips from Nvidia. Nvidia. Well, first of all, Oracle's stock went up on the news. OpenAI was doing it, open AI's valuation, went up on the news of their purchasing of this from Oracle.

And in the meantime Nvidia stock went up, is Oracle promised them a big order for chips. Now, how does OpenAI pay Oracle for the money that Oracle's gonna pay Nvidia for the chips? Nvidia made a hundred billion dollar investment in OpenAI. OpenAI has done similar deals with a AMD Broadcom, but what has never been provided is any estimate of the return on investment of all of this capital expenditure, and we don't need to pick on.

Oracle and OpenAI and Nvidia they're part of this process. There are all sorts of hyperscalers spending hundreds of billions of dollars that they then in tune need to go churn and monetize, and the valuations and asset prices and all these three way

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, OCTOBER 10, 2025

transactions continue to go higher. And that gives the appearance of a validation that there is real value creation going on, and it's certainly rewarding.

Investors, especially those who turn who decide to sell out of these big gains checks are getting written. There's real life money being deposited in accounts, but the fundamental underlying, deep down question, what is the value creation from the underlying product? How do the big AI CapEx customers.

Monetize the amount that they are spending. That is the question in front of us. Now, first of all, let me make clear, I am not suggesting that there isn't an answer that the, or that the eventual answer is going to prove to be a disappointing one. I'm a hundred percent open to the idea that there is a path here for tremendous profitability to this massive amount of money and aggregate.

Its trillions of dollars being committed or spent. But what I'm not open to. Is the idea that anyone knows the answer or knows how, or knows when. There are a lot of ifs. Hows whens out there? And that's different than saying AI CapEx will prove to be a disaster. I'm not saying it proved to be a disaster.

I'm saying that there is a widely speculative backdrop to trillions of dollars of investment right now. Where will it go from here? I'm not in the prediction business. I am in the business of risk reward calculations, but what I would suggest to you. There are three basic categories that are used useful as a kind of compartmentalization.

There's thousands of subcategories and different options and optionalities as to where a lot of these things could go. Subsets of subsets and all of that stuff. But I would say that we're not outta bounds to suggest. There is number one, a sort of revelation excuse me, revolution, euphoria, outcome, a kind of best case whereby all of those most desirable outcomes materialize.

Outlandish valuations become rationalized, and we spend the next 10 years just blown away at how much all this AI CapEx story was monetized. In this scenario, the unknowns and risks become known. Payoffs. And when I say monetized, they do not mean just simply that stock prices go up of the customers, but that the end

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, OCTOBER 10, 2025

user, what the customer's buying it for, results in a tremendous path to revenue growth.

And in this scenario, risk takers are rewarded and done so without any consequence for the tremendous risks that they have taken. That is scenario number one. Scenario number two is what I'm gonna call the doomsday panic outcome, where the AI story ends like the metaverse for those old enough to remember that thing from three years ago, only with a lot more zeros and commas involved than the Metaverse had, where there is just a kind of eventual conclusion that there is not going to be an adequate ROI relative to the amount of money that has been spent.

The monetization path fails to materialize, and the circularity problem reverses, and so the basis for stock appreciation and hyperscalers and computing providers becomes a basis for depreciation of both. That's a kind of indiscriminate crash outcome. That's what we'll call scenario two, a doomsday panic.

But then scenario number three, we're gonna call a nuanced reality outcome. Where there are winners, there are losers, there's a lot of unexpected developments along the way. And those who do go into this with eyes closed, no diligence, they do get punished. Some who do more prudent analysis along the way they get rewarded.

Some who avoid it altogether are regretful. So you can call it a more middle ground issue, but what happens is there is some end user monetization and it rationalizes some CapEx. It makes a mockery of other CapEx. But it just takes years to parse out winners and losers. But there are winners and losers.

You can call this the internet outcome because it's a very similar story to what did materialize with the worldwide web. I think you could call it a history repeats outcome, because I think this is basically the suggestion that history repeat in a similar way that it has before with many other technological revolutions.

And I think it is a kind of natural order of things. It is a more likely scenario out of what we know about not only economics and business cycles but human

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, OCTOBER 10, 2025

tendencies through all of this as well. I would tend to pour water on theory number one, outcome number one, and that is simply because the risk reward trade off in it strikes me as highly unlikely.

The entire business sector right now is generating about \$50 billion of revenue. I have no doubt in my mind that number can and will go higher, but the estimates that we're reading that are very rationally, intelligently assembled, suggest that. 2 trillion is a low number, and I've seen some as high as 3 trillion for what is going to be needed in eventual revenue streams to justify the current capital expenditures to deliver any kind of real life ai.

And I mean, in four or five years, 2 trillion of revenue is more than all of these hyperscalers, the biggest 5, 6, 7 companies in the world. Name brand companies you've heard of every day. All of their revenue put together, not from ai, from everything that they do. Okay? We're just simply talking about a tremendous expectation for revenue growth without any clarity as to what exactly is going to create outside of that circularity story in technology.

The reason I'd pour water on outcome number one. Is that I think it is hardly new that an overinvestment period would take place. That results in overvaluation over capacity and eventually the need for a boom to be solved by a bust so that there can be appropriate level of liquidation. Right sizing of capital a correction adjustment.

And this is a very familiar tune and I believe to be not altogether unlikely. One. Now our job at The Bahnsen Group is not to invest client capital on rank speculation. The AI story contains speculation. It also contains a lot of promise, a lot of opportunity. I do not consider the AI story to be entirely speculative.

What I believe is that the way in which many people are investing in it is far more speculative than people understand that the investible part of the AI story results in. Companies that make goods and services that meet human needs and wants driving a better efficiency and productivity. And that if that doesn't materialize in a way that they, by investing and paying for something can generate that higher productivity, higher efficiency, then the whole thing becomes a really, really big problem.

DIVIDENDCAFE |

PODCAST TRANSCRIPTION

FRIDAY, OCTOBER 10, 2025

I think that there will be those efficiencies and some of 'em are to be determined, but that ultimately. The success of AI comes down to its ability to be used by real life companies, not only in the technology sector buying from one another, but in consumer staples, in healthcare, in financials, in industrials, and all of these other stories that are just real life companies producing goods and services that meet human needs and wants, and along the way.

What people want to do to get exposure to the space is only by the hyperscalers at 58 times earnings, or 39 times earnings, or 84 times earnings. Then it will either end really badly for them or it will not. But that is not an outcome that I consider an attractive risk reward trade off. What I do think is extremely attractive is allowing the benefits of technological revolution to accrue to real life companies.

Now, that becomes a more boring story that is not immediately visible with a price signal in the form of evaluation. Boom, that is less exposed to Soros reflexivity thesis and I believe is a much more prudent way for us to approach this story. People will say, well, you know, along the way you see some of these other things going up.

Are we gonna get left behind? Is it time to at least pause the fundamentals of dividend growth to kind of join this euphoric party? And the answer to that question is, no, it is not. Because the answer is always no. As to whether or not a smart thing to do is abandon the principles you believe in. I have spent over 20 years essentially managing money in a dividend growth orientation, and we have studied the realities of dividend growth investing going back a hundred years of its real life impact in markets and so forth.

I believe that what dividend growth is and the things that people right now are talking about as a bug are in fact a feature, and that is. The sustainability, the predictability, the consistency. This is not free of risk. This is not free of some companies that become overvalued. This is not free of some companies that face fundamental headwinds.

We have some dealing with that. Now, there are challenges around operational execution, but those things do not represent existential threats and boom bust

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, OCTOBER 10, 2025

cycles that we're talking about many investors exposing themselves to right now. We are talking about a far lower volatility profile, but with significant upside into the future, including the upside that comes from its adjacents to the artificial intelligence possibilities.

I do not believe dividend growth is divorced from the AI story, I think it is a very responsible and perhaps the most prudent way to play the AI story. If AI is growing profit margins for real life companies, then companies with propensity to pay a growing dividend, investors are gonna have more free cash flow through higher margins.

That allows them to share more dividends with investors. That's a cyclical self-reinforcing cycle that we like a lot, but the point being that. An investment philosophy that you put on pause to let a fad mania or euphoria play out is not an investment philosophy. It's a gimmick, and it is not something one believes in at all.

If you went to a church and a pastor told you believed in something and preached a sermon on it, but then he did the exact opposite in his life, he would say, well, that person doesn't believe in what they said. Now, you might just think they're a hypocrite, but you also might believe they don't even believe it to begin with.

An investment professional who is willing to put aside a diligently constructed means of investing client capital because of a temporary moment. Is not really committed or convicted by that investment philosophy whatsoever. And I think that what we need more than anything right now in a period of mixed macroeconomic signals in a period where a lot of things happening at these levels of valuations and whatnot, rhyme with things we've seen before in periods of what proved to be tremendous market vulnerability.

I think what investors need is investment professionals that actually believe in what they're doing and do it because they believe in it. And allow it to generate the successful results it has generated over time, even though there'll be periods where it may be in favor and out of favor. There is no such thing as an investment philosophy that is always in favor.

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, OCTOBER 10, 2025

That's not the way investment works through the cyclicalities and dynamics of all sorts of things. Certain approaches find themselves in favorite times out of favorite times. But what we want to avoid first of all, as a professional, legal fiduciary, but also, in my very humble opinion as someone who is desperately.

Desirous of practicing ethics, integrity, and trustworthiness. What you want to do is be rooted to something you believe in and the dividend growth mantra whereby free cash flows are growing over time and being shared more and more with investors constantly allowing them to de-risk their investment through the actual real life receipt of a reward.

While that can be used to reinvest in the company or used to pay real life bills, both withdrawals and accumulators in practicality create different advantages out of the approach. But this to me represents a very sensible way to invest money, even when some stocks are going up 10 x on a craze. And it also represents exposure to the underlying promise of the craze itself.

If this AI moment is real and many parts of it are gonna prove to be, in my opinion, then those things will be monetized through actual portfolio companies, not merely inside that circularity trap where many people find themselves in the moment. I do believe that there is more at stake right now than just people sticking to their guns.

I believe that there is the need for consistency. I believe there is the need. For that kind of integrity and investment. But I also believe that it is the right way to manage money, not merely because it reflects someone's conviction and consistency, but because there is need to have a path outside of this moment whereby there could be a significant amount of carnage on the other end.

Option three of the way of the three sort of broad compartments I suggested seems to be the highest likelihood and in option two of total carnage. I don't think that our approach gets hurt that badly. Option one I think is very unlikely. And option three, I think, is not only the most likely one, but the one that will do the most good for most investors.

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, OCTOBER 10, 2025

This is the way we're approaching this current AI moment, constantly looking for ways in which our portfolio companies can benefit from it, but at the same time, not being guilty of closing our eyes, buying a boat hand, both hands, not asking questions. That is not what clients pay us to do. We're asking the questions and hopefully today you feel we've given you some answers.

Thank you for listening. Thank you for watching and thank you for reading the Dividend Cafe.