

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, NOVEMBER 14, 2025

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Hello and welcome to this week's Dividend Cafe. I am your host, David Bahnsen. I'm very excited. To be talking to you this week about a story that no one has been talking about all year, and that is ai, this thing that no one has mentioned in the investing world for quite some time, but it's sort of a big secret and I'm gonna crack the code on it here today.

Of course, I say this in jest because it has been one of the biggest topics. Discussed not only across the culture, but particularly in investment markets this year and last year, and really since late 2022 when this little thing called chat, GPT, sort of hit the airwaves, if you will. And we have been living in a time that I think is profoundly important for investors.

Now, if I were doing a Dividend Cafe today where I just basically wanted to unpack some of the noise, I've first of all done that before. It also is, I think, a little bit less exciting of a topic. There is a lot of noise around all this, but that's not my point. Today, I want to make the case to you all that this AI story is a bubble.

That there is a bubble going on that is going to do great damage to certain investors. That at the same time, I do not mean by that what I think a lot of people might mean. I'm not suggesting a systemic market collapse. I am not suggesting a particular time or season to exit. I am not suggesting that AI will prove to be a dud of a technological innovation.

I believe it is entirely consistent and in fact, more cogent. To understand the legitimacy of artificial intelligence, the opportunity that exists in AI as it unfolds in a more monetizable way to real life businesses in the future than is available now and at the same time, understand. That when you get into a moment where euphoria is driving investor returns and expectations, that there becomes a moment in which it is very difficult to make money in that as an investor.

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Now there are always fads. They're always noisy things, and I have talked in the past about shiny objects where people get a little theme or narrative and they go pile into it and eventually get their face ripped off. And if we were just talking about another one of those things, then I probably wouldn't devote as much Dividend Cafe time and space as I have this year, and we'll continue to.

We did a Dividend Cafe about a month ago now, where I tried to unpack why I found it utterly insane. I mean, intellectually, but also morally insane for an investor, let an investment professional. Like myself and my colleagues at The Bahnsen Group to change our belief system based on a particular moment in time to say, well, we actually want to put a pause on what our principles are so that we can try to extract a certain opportunity for a season, and then we'll jump out before things get a little hairy.

I did not decide to write on this subject this week. As NVIDIA's now gone down over 10% from its high just a couple weeks ago, and other AI darlings like Palantir down over 15%. I wanted to write about this more extensively a month ago when I first wrote in defense of our principles, and then the next week wrote a sort of contrarian position about what AI will end up doing to jobs in the society.

It had more of a cultural bend to it, but right now I wanna write about math. I wanna write for investors in a very practical way, because if this were just noise and some people are gonna get a little carried away, it doesn't matter very much to a lot of people and it wouldn't matter very much at all to our clients who are of course, the primary audience to Dividend Cafe.

But the reason why I believe this is more than noise is I think that we're now talking about a legitimate bubble where there is significant dollars involved. That if almost every bearish thing, every negative thing, every concerning thing does not happen, it may still be very, very difficult for investors to make money because of the math of the gyrations, the high volatility of how a lot of these things are going.

I'm gonna make that case for you here today in the Dividend Cafe. So let me just basically restate the conclusion and those you wanna tune out now can tune out as long as you rate us five stars and give us a thumbs up and re for a positive review

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or whatever it is that you might wanna do. But no, hopefully you'll state to the end here, but I will not bury the lead.

I've stated I believe AI's in a bubble. But the risk is not to me and what AI does it's not when it does it, but rather that there is a moment in our investing culture taking place that I've seen several times in my adult professional life. That a sensibility is replaced with euphoria and the decision making that results is never, ever good.

The stakes are higher because of the dollars and I think that what a lot of people believe is, well, if I avoid owning the pets dot coms of this moment. That was a situation where people bought terrible companies. They went down 100% and there were people who lost all that money and they moved on.

And I don't think there are very many people that put a hundred percent of their portfolio in pets.com. Maybe some did. They probably didn't have a very big portfolio if they did, but they touched the stove and they, those people are not gonna be touching the stove again, Lord willing. However. I don't think that's what we're talking about.

The low quality nature of some of the companies at the heart of the.com. Implosion and bubble make this story worse. It is not better because they're higher quality businesses involved right now. It is giving a false sense of security that I think is covering up for some of the real mathematical fundamentals at play.

Let me just start with what I mean by some of the mathematical fundamentals. And it doesn't require you to have an outlook on ai. It doesn't require you to have a particular opinion or point of view on a given company. It just requires you to understand how math works in terms of percentages. Nvidia was \$212 on October 19th, and as of today.

It was sitting, somewhere in the 1 75 range. It's lost \$500 billion of market cap, but as a percentage, that's only about 10%. It can add 500 billion in a minute. It can add a trillion, it can take away 2 trillion. It releases earnings results next week. And so you could expect there could be big volatility up or down around whatever happens.

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That's the thing about the absurdity of when companies are at 50 to 60 times earnings, and we're talking about trillions of dollars as if it's normal. Okay? The fact of the matter is that a company losing \$500 billion of market cap in 15 days is not normal, nor is a company adding \$2 trillion in market cap in 10 months, which is what Nvidia had done before the last 10 days.

That came after it added one and a half trillion dollars of market cap in the year before. All right? These are absolutely unprecedented moves of valuation in absolutely unprecedented periods of time. Now, here's the thing I find so interesting. One year ago, Nvidia was at \$150, 150 a share. It ended up getting down to about a hundred.

Between the Deep Sikh fears with China and Q1 and then the Liberation Day fears in the Trump trade war back in early April, and then of course it has since rallied way, way higher. And if you bought right at that bottom where you're sitting now, you're sitting very pretty. If you bought a year ago, you have a return.

You're up. It's bowed in line with S&P. The fact of the matter is that there are points at which one could buy it, points at which one can sell it, that make all the difference in the world. If somebody bought two weeks ago, they're gonna need a 25% return. Let's say if Nvidia gets to 170, they're gonna need a 25% return just to get back to even.

Now, maybe that'll happen easily. Maybe it won't happen for a long, long time. I have no idea. But that's just the math of it, and that's a with a pretty easy case. The problem is that when one has a higher basis, they are not sitting with house money. Someone who bought it years and years ago at 70 is not really likely to care about a two 20 to one 70 move.

Someone who bought it at 215 does care. And I think that you have a very, very different group of investors, different types of hands holding it, that is going to create a lot more volatility around the name and ultimately undermine the thesis that the popularity is the backstop. It has to constantly go up.

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'cause there's always another buyer right there. Now let's use Oracle as an example, which has hardly been an AI darling, but then this year became one. And they announced a big deal with OpenAI, giving them an order and Oracle giving Nvidia an order. And Nvidia giving OpenAI equity capital and Oracle went to \$345 two months ago, and today it was sitting at \$215 down 38%.

And after being down 38%, still trading at 50 times earnings. So now it has to go up 59%. Just to get back to even for people who bought at that number. Now, maybe it'll do that May, but the big announcement came and now here we are two months later and you need 59% to get back to even. Then when investors face that kind of math that often historically causes them to throw in the towel, it makes people give up.

It causes them to abandon their own investment strategy. So psychology and sentiment become extremely important and much more important than common sense and fundamental logic. Look. I really do hope that the story works out well for Oracle. I am nothing against OpenAI. There's a circularity in all of it that I expressed a month ago was concerning and is concerning throughout a lot of the AI CapEx story.

But I'm just right now sharing not what I want to happen or don't want to happen, and not what I'm predicting will happen. I'm just explaining the math. Someone right now owns a big, big, big successful stock, and they need it to go up 59% before they're back to even. And I find that to be a daunting situation now.

That is actually one of the better and more benign stories. We just talking about. Nvidia and Oracle consider a company like Core Weave, which is a darling recently gone public, a darling of AI cloud and platform infrastructure. The stock was \$187 a share five months ago. It is currently \$77. Right now at 77, it is trading at negative 38 times earnings, so I will let you do the math on what the PE ratio was back in June.

Now the stock has to go up 142% to be back to even. Do you see the point I'm making? This is not a bad company. This is a good company. Now it's cashflow negative and earnings negative. There's a path to something being different there.

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But the things are getting better and better for the company, and yet the negative returns have gotten worse and worse.

If the stock goes up 20% per year for five years, which would be double the S&P five hundred's historical return, then the investor will be back to even from where they were in June of 2025. So this has nothing to do with the companies being mentioned. I'm not expressing any bullish or bearish opinion about Core Weave, Oracle Nvidia, let alone a private company like OpenAI.

What I'm trying to get at is that these things can, for some investors, become economically existential and they are always mathematically daunting. Yet this is, I think, where the story lands because of the high volatility and the need for entry prices and to have an exit price that all pan out. What is it that I'm worried about?

Well, first of all, let's just understand the premise behind the whole story. Number one is that the hyperscalers are spending so much money on their AI capability, build out that regardless of how it works out for them. There's just massive profits coming to the people they're spending the money with.

Fair enough. The capital expenditures of some companies are the income for another. However, the problem of course with that is it presupposes that the money will continue going even if things go poorly for the spender. To the company receiving the money, they most certainly will not. And then the companies that slow down in their spending or cease their spending have the leverage over the company who's high valuation, which is predicated on ongoing massive revenue growth falls apart.

So you do not end up with, there's a winner and a loser. You end up with two losers in that situation. But the second premise as to why people are in the AI trade, besides their willingness to just buy people building out ai. And not worry about the people spending the money on the build out. The second premise is that the people investing in AI are gonna make so much money once they convert this newfound computing power they're investing into in real life application.

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And they don't know how they're gonna do it and they don't know when, but it's worth going along for the ride because there's these huge new profits coming from AI application utility. Now, if you find me sharing these two value creation paths as something alluring to you or tempting, then you are not hearing me correctly.

There is unbelievable risk and unbelievable speculation involved in both of these stories. The build out part of AI is where everyone's focus is right now. We've talked about it before. Many analysts call this the picks and shovels phase. AI is at ground zero of AI infrastructure. They make the chips that make it go and so forth and so on.

But at some point that does have to lead to usage and application. And I think most people understand that unless you are one of those few that are timing an exit. Now, for this to not need an exit, but to go into a transformative moment, we have to look at history. Tell me something that has ever gone from a massive craze of build out.

To a utility and application phase without a huge fatal purging of dead weight from that excess along the way. You can look historically at railroads, at telecom, at my own beloved fracking and shale story of 10 to 15 years ago. Radio fiber optics media.

These things become legitimate stories that have transformative impact on society, that along the way, the build out phase goes to excess phase, and a lot of people get their faces ripped off and it happens over and over again until they're as big liquidation. Now, many of these things I just described are what my friend Louis gov refers to as productive bubbles.

There's a productive asset that contributes to something productive in society that went into a bubble valuation. And when all said and done, the owners of it change. Someone loses money, someone buys it cheaper. There's a re-rating, a repricing. Then there's an ownership allocation shift, but there's a productive asset still standing.

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It's just that it used to be at X and now it's worth half of X or or 20% of X. And it used to be held by Smith, and now it's held by Jones. Fine. However. That's different than what Louis refers to as a scarcity bubble. Something that doesn't have a lot of productive use in society that won't have a lot of residual benefit.

That its bubble was based on the idea that it had such a, a scarcity value, that it would keep going higher and higher. And then when all said and done it bubble its bubble burst, and lo and behold, it doesn't have the scarcity value that people believed and it ends up having to fade away. In value for a significant period of time.

Louis uses Japanese real estate 1970s Gold even goes back a few hundred years at Tulip Mania as his examples. I'm perfectly willing to throw out there the possibility. That maybe crypto will belong in that space, but plenty of crypto lovers are gonna disagree, so that that's all fine.

My point being that when a scarcity bubble pops, you're not left with the productive asset. You didn't just merely switch hands. The value story itself went away. I think. That when we talk about AI as a bubble, that I am talking about a productivity bubble. I concur that there's a technology there. It'll be useful.

And I think if it does trade much lower in value later, and there's totally different names who own it, different people. 'cause some investors lose their shirt and get washed out. That's still very different than having an unproductive asset be in a bubble. The other kind of catch to this though, is the difference between how bubbles, whether they're productivity driven or scarcity driven, are funded.

When something's funded by equity, people can lose a lot of money. But the people who lose a lot of money are the people who invested a lot of money. What we refer to as risk takers. And it can be very bad for them, but not bad for all of us. The analogy I use is that something can go wrong in the pool, but it hurts the people in the pool and that's different than a systemic risk where it hurts the people who are outside of the pool and even people that didn't go to the pool party at all.

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And I think to get to a place where something bad happening in the pool hurts everybody that was even just out in their car. Driving around is generally when you have a debt fueled bubble. And we have seen those before, that those that were totally unrelated disconnected in their own practice to the financial crisis of 2008 were still substantially impacted by the impact of the economy to housing, to stocks, to bonds to credit markets from the contagious nature of the 2008 financial crisis.

That's a classic case of an scarcity bubble. Condos in Arizona that were attached to debt. And leverage as a funding mechanism. There's a lot about this AI story. I want to be and believe to be different. First of all, the productivity versus scarcity nature, but second of all, the equity versus debt funding.

However, this is one of the things I need to say as I get ready to wrap up, I don't know that that's gonna hold. I don't know that this will stay an equity funded situation. Oracle's certainly borrowing a lot more money than some of the other players that we've talked about. You know, you do have these hyperscalers that print money in their core business.

They're free cashflow generating machines like the world's never seen. When you look at meta Google, Microsoft, apple, these are just insane cash flow generating companies have ability. To lose a lot of money and equity without it going into something. Debt. They have unlevered balance sheets, but there's a lot of questions about what the capital structure of AI things are gonna be.

There's a lot of questions about counterparties. There's a lot of questions about tri-party situations. I've talked about various economic transactions taking on a circular nature, but there's also a question of how any of it's gonna happen at all without a build out of power. That will be debt funded.

There will be debt fueled. And so I don't think anyone knows enough to know where some of those other adjacent risks are going to come. What I would say to leave you a couple quick concerns as I finish my case for this being a bubble, and then wanna conclude finally with the practical reason that we're handling it, the way we're handling it, number one.

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I believe that there is an awful lot of this whole story tied around a private company that no one knows anything about. That is at the hub of a lot of issues as a buyer, as a seller, as an acquirer, as an acquiree, as a funder this open AI company that makes chat. GPTI have never in my life seen a private company with no real balance sheet per se.

Be able to attract absolutely infinite amounts of speculative venture capital, equity capital, and be a part of counterparty to transactions of this magnitude of trillions of dollars. It's absolutely unbelievable. Maybe they just end up owning the universe, but, you know, a lot of people seem to be missing the fact that the amount of CapEx going into AI right now, you cannot have everybody win.

The amount of money spent would require everyone to win, but they can't all win. One of these players has to beat out another player. You're going to have failures. You have to, and I think that that represents a huge unknown unforeseen undiscussed risk that there will, in a maybe best case scenario, in an optimistic scenario, be some companies in the AI story that win, but that comes with others losing.

And unless an investor. Is picking the winners and avoiding the losers, which represents a level of risk. I very much doubt they are aware of. I think there's gonna be significantly more carnage than people realize. I would like to add, I do not believe that we understand the risk of China in this.

Now, perhaps the US which is certainly winning in the AI story so far, stays in the lead forever and ever unmet. I do not think China has better tools and applications than we have in the US. I do believe they're trying. And I do believe that certain recent history examples of people laughing at the idea of us losing supremacy to a global competitor might wanna go look at Intel's success in chips and semiconductors versus Taiwan semiconductor and decide who's laughing now.

Is it totally out of the question that there is some degree of risk from global competitors? Nvidia does 40% of their business in recent quarters with countries like Malaysia, Taiwan, in Singapore. Is it really out of the question that, I mean, they're obviously selling their power to global competitors.

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I simply don't accept that there's no risk that American presumed dominance is vulnerable. I do not say that as the base case, but I do say it as a risk that needs to be factored in when you start talking about these valuations and this level euphoria, and I don't think it's being factored in.

I also would add that I think an awful lot of people, both professionals and novices involved in this story right now that are most bullish and euphoric on AI. They were not alive as professional investors or grownup investors in 19 97, 19 98, 19 99, into the 2000 bust. That there isn't the same degree of memory of familiarity, of understanding, of risk, appreciation, of humility that might be appropriate given these certain circumstances.

Now I am not suggesting. That this entire situation is totally analogous to pets.com because as I said before, I do not think it is, I think the tech companies of today are higher quality businesses than many of those tech companies of the year 2000. But that doesn't change the fact that you need revenue growth rates, not just revenues, but the growth rates of the revenues to continue accelerating, to rationalize this whole deal.

And I simply do not believe they will. I believe that the revenues will continue to grow, but the growth rates will decelerate at a time that CapEx as a percentage of revenue is flying higher, that CapEx as a percentage of revenue will be going higher while revenue growth itself is declining. And I do not believe that that risk and fundamental economic clarity is appreciated by enough investors.

So there is a, not everyone can win dynamic. There is China global competitiveness dynamic. There is the investor base behind the story. Represents I think a vulnerability behind it. And there is just the basic reality and inevitability of revenue growth, deceleration all attached to investment thesis that are themselves vulnerable.

Which is that the picks and shovels are enough, or that the utility's all gonna come out fine, even if I don't really know how. You got vulnerabilities sitting on top of vulnerabilities trading at 50 times, 60 times. Earnings it cango a lot higher, my

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friends, it can go lower. Maybe that level two weeks ago at Palantir and Nvidia at all time highs, maybe that was, will prove to be a generational top and

the weakness we've seen in this story the last week or two is just the beginning. Maybe it's just a little dip and it's about to soar higher yet again. I don't know, but I do know that when the rest of the world buys into euphoria. The notion of being covetous of their short-term results generally is a very bad idea.

That what you ought to be covetous of is the very, very thoughtful, disciplined cogent portfolio that you have. That is definitely subject to volatility, to up and down movements, to successes and failures, but not to something existential where you need 142% return to get back to even I don't wanna cherry pick these examples .

There's plenty of better stories in there. And you could also choose to isolate stories on the bullish side of when someone got in at one of those dips and got out at one of the booms higher. Those things happen too. I don't think they happen repeatedly. I don't think they happen intentionally.

I don't think they happen as part of a solid philosophical investment plan. What I want to do at The Bahnsen Group is continue to advocate for investment principles that have stood the test of time. That includes the time of.com, the time of financial crisis, the time of great world instability, the time of great peace, and economic growth and expansion.

Times that have covered decades of all kinds of diverse events. And yes, the time we're living in now, where more and more people seem to be losing their mind about one particular narrative that is not entirely defensible, that we'll end up having a lot of utility in the future, but along the way is exposing certain people to risks and existential pain that I am not interested in incurring on behalf of my clients.

So to that end, we work. Thank you for listening. Thank you for watching, and thank you for reading the Dividend Cafe. Look forward to being with you again.

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