



# Missive

OCTOBER 31, 2023

## Artificial (Stock Market) Life Support

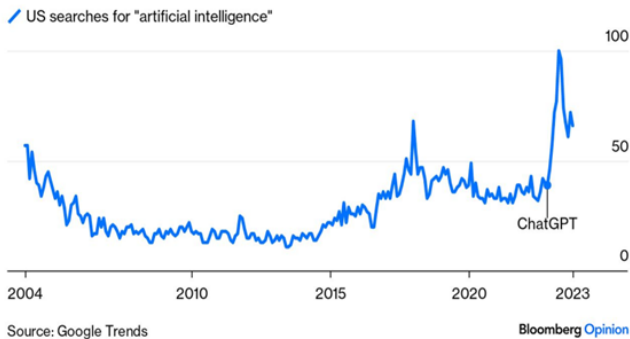
Dear fellow investors,

In the first *Godfather* movie, the heads of the mafia families gathered in an attempt to make peace and calm things down. They agreed that the drug trade would be handled carefully and that the Corleone Family would use their political power to give cover to the highly-profitable business of drug addicting people in the New York area. This truce temporarily put the mafia family business agreements on life support.

At the end of 2022, after the tech sector and the S&P 500 Index had taken a drubbing, we wonder if the leaders of the Magnificent 7 companies got together. They didn't like what was going on and wanted to settle things down. Therefore, they agreed to establish a new leg to their popularity based on addicting companies and investors to Artificial Intelligence (AI). They began to explain what each of them would do to profit from its emergence. Hence the spike in Google searches for ChatGPT!

### Waning Interest Around Artificial Intelligence

Searches for the term have dissipated after a boom in late 2022



IBM wasn't at the meeting but had to scratch its collective head. They have been running Watson commercials advertising their expertise in artificial intelligence since competing on Jeopardy with it in 2011! Why has this spike of interest in AI been so helpful to the Magnificent 7 stocks as compared to the early leader in the use of the technology?

The whole thing looks very disingenuous to us at Smead Capital Management. First, AI is not new, and they have all been working on it and using it in the last ten years. Second, interest rates have risen substantially and make futuristic earnings on exciting technology less valuable by discounting those earnings back to today. Third, this group of companies has been famous for having a lack of forthrightness (just ask the Justice Department). Lastly, the Magnificent 7 has been the only thing keeping the rally in the S&P 500 Index alive this year. The success of this narrow group of stocks has defended the massive amount of capital stuck in the passive index and prevented it from fleeing.

Annual S&P 500 Contribution of 10 Largest Weights During Positive Performance Years		
Year	Top 10 as % of Total	S&P 500 % Perf.
2023 YTD	96.5%	11.7%
2007	78.7%	3.5%
2020	58.9%	16.3%
1999	54.5%	19.5%
2021	45.0%	26.9%
1998	36.8%	26.7%
1996	33.9%	20.3%
2017	33.3%	19.4%
2019	32.8%	28.9%
1991	28.6%	26.3%
2006	27.6%	13.6%
2016	26.6%	9.5%
2003	23.6%	26.4%
1995	22.3%	34.1%
2014	22.2%	11.4%
2004	21.1%	9.0%
2005	20.5%	3.0%
2010	19.6%	12.8%
2012	19.2%	13.4%
1997	19.1%	31.0%
2013	17.6%	29.6%
2009	15.5%	23.5%
1992	14.9%	4.5%
1993	12.2%	7.1%

Source: @jessfelder, @nateGeraci, @Todd\_Sohn

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In *The Godfather* movie, peace didn't last long. Michael Corleone took over from his father and proceeded to murder the leaders of the other mafia families in the New York area. The truce only provided temporary life support. AI looks like tech stock and S&P 500 Index life support to us. If they turn on each other, which their latest earnings reports show they are doing, won't it get bloody? What happens if the seven stocks that have propped up the passive S&P 500 Index go through what every stock of popularity has done historically? This is just another reason to fear stock market failure!

Warm regards,



**Bill Smead**  
Chief Investment Officer

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