



Missive

NOVEMBER 13, 2025

AI Bubble: Feels Like the First Time

Dear fellow investors,

My first experience with a major economic/stock market bubble was the dot-com bubble of 1998-2000. Many investors forget that the Nasdaq and S&P 500 Index bubble that ended March 10, 2000, was the first bubble in a series of three bubbles. In this missive, with the help of the band Foreigner, we will walk through the three bubbles that cursed investors from early 2000 through 2015.

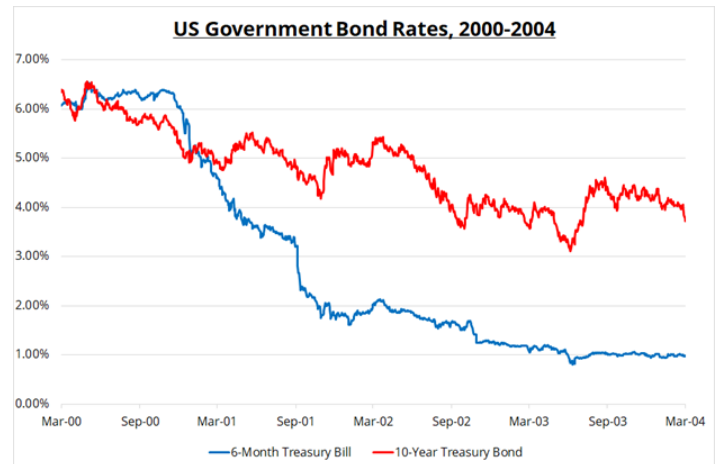
*I would climb any mountain
Sail across a stormy sea
If that's what it takes me, baby
To show you how much you mean to me*

The dot-com bubble helped common stocks and the S&P 500 Index climb to heights it had never seen before. Stocks like eBay (EBAY) went public at \$18 per share and soared within 12 months to a height of \$640 per share. Here is a picture of the mountain that investors were climbing to make their money at the end of 1999:

Ticker	Name	Weight
MSFT UQ Equity	Microsoft Corp	4.91%
GE UN Equity	General Electric Co	4.14%
CSCO UQ Equity	Cisco Systems Inc	2.85%
WMT UN Equity	Walmart Inc	2.51%
XOM UN Equity	Exxon Mobil Corp	2.27%
INTC UQ Equity	Intel Corp	2.24%
1837572D UN Equity	Nokia of America Corp	1.91%
IBM UN Equity	International Business Machines Corp	1.59%
C UN Equity	Citigroup Inc	1.53%
TWX UN Equity	Time Warner Inc	1.37%

Source: Bloomberg.

The internet was going to change our lives and ultimately become a huge economic factor in our society, but that didn't stop it from creating a "stormy sea." The top ten stocks reached 25.3% of the S&P 500 Index. However, the bursting of the mania around it crippled the economy and led President George W. Bush to promote what he called an "ownership society." He knew that the multiplier effect in the economy is the highest in home building. The federal government attempted through looser regulations and moral suasion to convince average Americans to stretch their budget to buy a house. This approach encouraged aggressive lending in the property market during the recession that followed the bursting of the dot-com bubble. Lastly, it caused the Federal Reserve to bring short-term interest rates down dramatically (as shown in the next chart).



Source: Bloomberg.

*It feels like the first time
Feels like the very first time*

This led to the second mania in housing, which really geared up in 2003-2006. The Federal Reserve brought interest rates down in the recession that followed the dot-com bust, and investors swung into residential real estate in a big way. Investors were buying multiple homes to take advantage of the looser borrowing environment.

The housing mania poisoned the banking system in the U.S. and led to the financial crisis of 2007-2009. However, while the dot-com mania wound down in the bear market of 2000-2002 and the residential real estate mania of 2003-2006 was gearing up, the third mania of that era developed for completely different reasons. Beginning in the late 1990s, two massive population countries emerged on the global stage. China and India emerged as major economic powerhouses. Simultaneously, countries rich in natural resources like Russia, Brazil, Australia and Canada were able to attract massive investment dollars in what ended up being called "the B.R.I.C. trade." As the S&P 500 Index went nowhere for ten years, these foreign stock markets produced superior returns and attracted massive capital flows.

*I know I can't help myself
You're all in the world to me*

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This culminated in what I call the double-booth phenomenon at the Schwab and Morningstar conferences. These were the only places we could go to promote our business in the early years. In 2010 and 2011, funds like Delaware Ivy Natural Resources and managers like Matthews Asia dominated the middle of the conferences with their double booths. This indicated to us that the B.R.I.C. trade and the companies at the top of the market caps in the S&P 500 at the end of 2010, which were a part of it, must be avoided.

*I have waited a lifetime
Spent my time so foolishly
But now that I've found you
Together we'll make history*

Therefore, this brings us back to arguments that are being made about why this current AI mania is nowhere near as egregious as the dot-com mania.

Ticker	Name	Weight
NVDA UW Equity	NVIDIA Corp	8.51%
AAPL UW Equity	Apple Inc	6.91%
MSFT UW Equity	Microsoft Corp	6.53%
GOOG/L UW Equity	Alphabet Inc	5.13%
AMZN UW Equity	Amazon.com Inc	4.17%
AVGO UW Equity	Broadcom Inc	2.95%
META UW Equity	Meta Platforms Inc	2.38%
TSLA UW Equity	Tesla Inc	2.18%
BRK/B UN Equity	Berkshire Hathaway Inc	1.56%
JPM UN Equity	JPMorgan Chase & Co	1.47%

Source: Bloomberg.

Now the top ten stocks are 41.78% of the entire S&P 500 Index, and people think that it's not as crazy as the first one at 25.3%! As my favorite actor, Eugene Levy, said to his girlfriend, Queen Latifa, in the movie *Burning Down the House*, we are "...all twisted up in the game!" This means that we believe almost every portfolio that is overloaded in the S&P 500 Index and/or heavily invested in the top ten names will likely lose money for a decade! If the prior manias offer any instruction, you must find other ways to make money and then hope that the new format doesn't get caught up in its own mania.

In conclusion, we are reminded of what happened in the broader stock market when the dot-com mania died. If the tiniest slice of the money that comes out of the highly concentrated glam stocks comes into undervalued areas like energy, healthcare and home builders, we could see the kind of gains that occurred in portfolios in 2000-2001, which avoided that bubble.

Lastly, we will quote the bridge lyric from the song as advice to our investors when it comes to playing with fire in popular securities or pivoting to undervalued and meritorious stocks: "Won't you open up the door?"

Play The Long Game,



Bill Smead
Chief Investment Officer

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