

Halloween greetings from your Blueprint Financial Advisors team where we're hoping the only scary things we have to deal with involve little ghosts and goblins seeking treats. Just a few days ago, one of my neighbors erected a 25-foot inflatable pumpkin in their yard. It made me think of that most dedicated Linus character and his faith in the appearance of the "great pumpkin." It's hard to believe, but it's been over 25 years since the last new Peanuts cartoon was published. If Charles was writing today, it would be most fitting for Lucy to open a stand offering "stock market advice 5¢." I might be the first in line. He would also likely have had something interesting to say about artificial intelligence. I don't know about you, but I've been putting this AI thing to good use. Just the other day, with little effort, I was successful in finding the highest rated onion rings within 10 minutes of my house. And even better, since the government shutdown seems to be on most of our minds, when I asked it for a non-offensive political joke for this update, AI gave me this beauty: "We should elect horses to Congress. Of course, all the votes would be 'neighs', but the housing market would be stable." I'm filing that one under great "dad jokes" for when my new grandson gets older.

I bring up artificial intelligence because we seem to be getting a number of questions from clients about why we think the market is creeping up ever higher in the face of what looks like rather daunting economic, political, and international problems. What seems to be overwhelming all these headline concerns is the sheer magnitude of capital expenditures to meet the anticipated demand for artificial intelligence applications. The current and estimated spending on these projects looks greater than the inflation adjusted spending on the Apollo space program, the interstate highway system, or even the government outlays from The New Deal¹. For those of you who took macroeconomics in college and were able to stay awake, you might remember the formula for calculating gross domestic product (GDP). The one where you add up "C" consumer spending, plus "I" investment spending, plus "G" government spending to total the size of the economy. You've likely read about these massive, several football field sized data centers that are being built all around the country. Many reports estimate that spending could reach \$1 trillion over the next three years or so². The huge growth in investment "I" spending is expected to make up for any potential slowdown in the "C" part of the equation. This, coupled with our insatiable government spending, is leading to some serious, turbo charged economic stimulus. The stock market seems particularly excited about this phenomenon, and many of the AI related "super scalars" are continuing to show substantial gains. Companies like Amazon, Google, Broadcom and Microsoft are up anywhere from 50% to 300% over the last few years. And of course, one of the biggest winners receiving a large portion of all this spending is Nvidia, which is up over tenfold in the last five years³. Nvidia is even better than the Great Pumpkin. It keeps showing up with big rewards.

The gains have not been limited to these huge companies. We have benefited from some of the smaller players supplying the "picks and shovels" in the AI build-out, which as you've probably read, requires huge amounts of energy. Electric companies like Eaton, galvanized pole manufacturers like Valmont, and even industrial supply companies like Grainger, have all risen between 30% and 75% in the last couple of years or so. We didn't invest in any of these strong industrial companies with AI in mind, but like the blind squirrel with the acorn, sometimes you luck-out. The challenge is what to do with these holdings when they're

¹ Spending on AI is at Epic Levels by Eliot Brown (WSJ)

² The Largest Capital Formation in History by Zachary Cefaratti (Medium)

³ From Yahoo Finance

caught up in what might be some "excess exuberance." In general, we have been trying to rebalance portfolios, where our stock or equity exposure has likely become a little too high. We have been paring back on stocks we think are expensive in favor of more conservatively priced stocks or high-quality bonds. We suspect that the breakthroughs in generative AI will likely yield some significant economic winners. However, just like the Internet boom, it is difficult to figure out who will ultimately produce big profit from AI. It's probably a good idea to anticipate some significant shakeouts. Remember AOL, Yahoo, MySpace, Level3, WorldCom and all the other exciting Internet stocks that fell by the wayside. It also probably won't hurt to have some cash or "dry powder" built up to take advantage of opportunities. Just a heads-up to our clients with taxable accounts. This shift to re-balance or add bonds (and the increase in interest rates over the past several years) will likely lead to higher taxable income.

One of the reasons that the United States leads the world in innovation is that during periods like this, people are willing to pour billions of dollars into promising new "bleeding edge" technologies in anticipation of huge returns. And of course, sometimes these investments do work out, which keeps the cycle of speculation continually turning. Sometimes, we just can't help ourselves. Some smart observer once said there seems to be an unwritten rule on Wall Street: "if you don't understand something, put your life savings into it." Our personalities, as well as most of our clients, lead us to allow others to take the lead on these kind of speculations. We find that it's often better to be patient and seek out the "bird in the hand." Of course, it can be rather humbling when the bush ends up having not two birds, but two hundred!

So, in an effort to be "fair and balanced," we probably need to mention a few of your holdings that have been losing ground lately. For a few decades, our portfolios have benefited from the branded food stocks. Companies like Coca-Cola, Hershey, Pepsi, and ConAgra have been consistent, reliable growers. These days, however, they all seem to be encountering a number of headwinds. If you're like me, you've likely noticed that the "store brand" products, while obviously cheaper, have also seen big quality improvements. I used to resist anything but the original Doritos or Lays potato chips. But now, I'm not so sure I can tell the difference. And if you shop at Trader Joe's or Whole Foods, try and find a Hershey bar. As always, it's hard to know if this is a cyclical (temporary) phenomenon or some permanent structural change. We are thinking hard about these issues and I am doing the smart thing. I'm counting on Ryan, Susan and Sarah to figure this out. Fortunately, there are still several of you, where nothing will do, but your Diet Coke and Cheetos.

Kidding aside, there are obviously great collateral advantages to these huge spending programs. We can thank the space race for big advances in satellite technology, global communications, GPS, weather forecasting, CT and MRI scans, memory foam, solar cells, water purification, power tools, and even freeze-dried food. I guess it wasn't all just about Tang. These advances touch our lives on a daily basis and I'm sure artificial intelligence will bring similar life-changing breakthroughs. We are following this phenomenon closely and will be trying our best to make prudent investments, but only where we think the odds are in our favor. And of course where we get confirmation from Jackson, who is our go-to guy on technology.

Finally, in closing we wanted to take a minute for some bragging. You likely remember the investment firms like EF Hutton, Smith Barney, AG Edwards, Dean Witter, Lehman Brothers, Bear Sterns, PaineWebber, and

Merrill Lynch. None of these well-known names exist as independent firms today. They were either acquired or went out of business. This gives you some sense of how unique this year's 90th anniversary is for D.A. Davidson as an independent employee-owned firm. One of the things that sets D.A. Davidson apart is its commitment to the over 112 local communities we serve. Since joining the firm in 2016, we have enjoyed being part of D.A. Davidson Days where our team likes to spend time with a worthy charity. You can see us taking a break in the attached photo. We are proud to report that Completely Kids is a cleaner, more organized place (with the exception of that ketchup stain on the window shade) as a result of our efforts.

As always, we truly appreciate your trust and will continue to do our best to earn it. Don't hesitate to reach out if you have any questions or concerns.

Sincerely,

Your Blueprint Team



Pictured Left to Right: Sarah Robak, Ryan Iwansky, Susan Koesters, Russ Manners, Jackson Wohlenhaus