This is Not a Time to be a Fool

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Since 2008, cheap money has fuelled one speculative bubble after another, from meme stocks and SPACs to NFTs. Each followed the same script of hype, frenzy and collapse. We believe the AI trade is next in line, while a wealth of real, cash-generative businesses sits overlooked. This is a time for discipline, not folly.

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"The market giveth and the market taketh away, blessed be the market" is well understood by experienced investors; there is a natural pulse and surge through investment cycles.

But then there are rare occasions when darker perils await and this brings to mind a scene from the 1994 thriller Pulp Fiction where Samuel L. Jackson's famously modified version of Ezekiel 25:17 on judgement is expounded, which we modify again as "And you will know my name is the Market when I lay my vengeance upon thee."

Fortunately, such judgement will not await every investor – but it surely will be cast against the doors of the fools. How can we prevent this? What tests should we apply? What should we look out for?

The brevity of this article prevents me sharing our complete toolbox of wealth-saving lessons, but I can address key ones.

If it's too easy, it's going to end in pain! Successful investing demands gathering insights into how a company makes money. For example, Microsoft owns operating systems and its own datacentres. With a degree of accuracy, Microsoft's future cash flows are predictable. Understanding and modelling these allows us to work out what the share is worth today.

Since 2008, due to the Global Financial Crisis, when governments reduced the price of money, speculative bubbles have washed through markets. Assets have become mispriced, completely dislocating from what they are worth. Thematic, momentum trades have run hard.

Since 2008 this cheap capital has fuelled countless speculative pockets within markets; we talk to a few over the past decade.

- Meme stocks – retail communities on a trading platform were driven by media hype to enter a feeding frenzy, piling into certain stocks, for those only later to collapse. GameStop and Bed Bath & Beyond might come to mind. GameStop was $0.70 in April 2020, $81 by January 2021 and then back to $10 by April 2024.

- In 2021, SPACs (Special Purpose Acquisition Companies) arrived. Over 600 SPACs listed in the US, raising $160bn; subsequently most have halved in value. The best-known must be Trump Media & Technology Group. It came into existence in March 2024, rallying to $79 a share at the time and is currently $6.99!
- The cannabis stock mania. In anticipation of legislation and a view that the total addressable market was significantly larger than it turned out to be, marijuana producers actively increased supply from 2018 onwards. Of course, these lofty dreams proved erroneous, and the Global Cannabis Index is 94% lower than it was at its high in February 2021.
- Non-fungible tokens (NFTs) and digital art/collectibles. Not known by many, these are digital certificates of ownership that prove that the bearer of the certificate owns an item on the internet – everything from Bored Apes to digital land. Yet another crazed frenzy of capital poured into this space and guess what? Yup, you guessed right, over 95% of all NFT collections have dropped to a market value of zero since their highs in 2021.
- The same theme is applicable to the electric vehicle and batteries market in 2021. A massive run-up in value, only to fall on its face. The Solactive China Electric Vehicle and Battery Index has declined 41% since its peak.

It is 2026 and for many of us that have been at this for a long time, we can tell you without a shadow of a doubt that the next stinker is the AI trade – it walks, sounds and smells just like the capital expenditure cycles of the past.

We think of the railways that went bust in about 1890. Electrification did the same in 1930, then of course there was the internet bubble of 2000. All characterised by hype, speculation, debt and share prices that were not aligned with reality. Now AI is the talk of the town. We have no problem with the use case for the technology, rather our problem lies with the investment case.

Against this hype, a sea of fantastic businesses across the world have been left for dead by market participants. These businesses just aren't AI sexy! Many of these companies fit into the broadest categories of Maslow's hierarchy of needs – the wide base of physiological and safety needs – that serve our basic requirements for food, water and shelter. Operating tried and tested business models that produce real cash. They cannot be replaced by AI.

Finding and investing in these opportunities requires systems, research, hard work and bravery. There are no headlines to guide the search, no blazing lights. This is the space for craftsmanship, good old reading the annual report, and understanding a cash flow statement and balance sheet. It takes immense courage to apply logic in a world suffused with emotion. To swim against a surging tide.

But the market really never changes; it applies its oldest traditions with clinical detachment. In the long term, it giveth to the wise and those that toil. It encourages the fools, emboldening their greed only to then wash them out with merciless efficacy.

This is not a time to be a fool!

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