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3Q25 Investor Letter

What We Do Not See

In 1932, in the shadows of business history, the leaders of the world's largest lightbulb makers secretly met in Geneva. Concerned with falling demand, they struck a deal that no bulb would last more than six months. The strategy revived an industry struggling through the Great Depression—too well, in fact. The practice, later known as *planned obsolescence,* spread to products ranging from smartphones to textbooks. Few today know of that famous (or infamous) meeting almost a century ago, but its effects are everywhere. It also revealed a deeper truth that the unseen can be just as powerful, if not more, than what is seen. The third-quarter investment environment has been another reminder of just this.

Few stop to wonder why a lightbulb burns out—they simply replace it. Financial markets often work the same way as when they do not appear to be "working," investors simply sell. So far this year, retail investors have done just that at record levels, selling more than $3.2 trillion in stocks (gross sales).[i] The behavior is unsurprising given the influence of the availability bias, or the tendency to rely on information that is most readily accessible. Buying and selling can be unduly shaped by the latest headlines, and recent ones painted a grim picture. Among the greatest hits was **"Dow falls over 500 points as investors digest hiring slowdown and new U.S. tariffs."**[ii] Days later another cautioned, **"Top economist warns the U.S. is 'on the precipice of recession'—and it will be hard for the Fed to come to the rescue."**[iii] Others struck that same ominous tone, illustrative of the headlines that unnerved investors. Yet while markets climbed steadily higher throughout the quarter, what remained unseen ultimately carried more weight.

If something seemed broken in financial markets, it was more perception than reality. Notably, the S&P 500 index would start the third quarter at 6,205 and, as of August 31st, would sit at 6,460 or a gain of 4.1%. Positive returns were a consistent theme throughout the financial markets. The Russell 2000 Index (U.S. Small Cap) shot up 9.0% and the NASDAQ rose 5.3%. Fixed income also fared well as the Bloomberg US Govt/Credit Intermediate Index gained 1.1% and the Bloomberg High Yield Corporate Index rose 1.7%. Across asset classes, gains were propelled less by headlines and more by a powerful underlying force.

> **"The five biggest lightbulb manufacturers on earth had gathered to create a secret cartel, known as Phoebus, with one aim: to stop anyone from creating a lightbulb that lasted more than six months."**
>
> **- Jacques Peretti**
>
> ***The Deals That Made the World* (2018)**

As Morgan Housel once observed:

"Or take the stock market. The valuation of every company is simply a number from today multiplied by a story about tomorrow."[v]

We remain anchored to the story that artificial intelligence (AI), despite the hype, is not yet fully appreciated or priced into every corner of financial markets. The story remains unfinished, and far from obsolete.

The AI Arms Race

Who is Matt Deitke? At just age 24, he is now extraordinarily rich after Meta hired him on a staggering $250 million contract. It was not easy. He turned down an initial $125 million offer until Mark Zuckerberg personally stepped in to seal the deal.[vi]

To Meta, his unfinished degree did not matter—his genius did. And his hiring is more than just a headline. It would be a vivid signal of how the biggest names in Silicon Valley are betting significantly on this latest technological wave.

As Mark Zuckerberg explained:

> **"We're building an elite, talent-dense team. If you're going to be spending hundreds of billions of dollars on compute and building out multiple gigawatt of clusters, then it really does make sense to compete super hard and do whatever it takes to get that, you know, 50 or 70 or whatever it is, top researchers to build your team."** [vii]

AI is a modern gold rush. Deitke is making hundreds of *millions* because Corporate America is investing hundreds of *billions*. Meta alone plans to spend upwards of $66-72 billion this year on AI infrastructure, which is up approximately $30 billion from a year ago[viii]. Orchestrating that much cutting-edge infrastructure requires extraordinary talent, and the going rate now rivals that of elite professional athletes. The sheer scale of capital being deployed is reshaping financial markets. The AI arms race is underway.

> **"We've built our communication infrastructure around engagement metrics rather than knowledge. Attention game winners excel at capturing eyeballs (Mr. Beast, Sydney Sweeney, Joe Rogan, etc.) ..."**
>
> **-Kyla Scanlon**
>
> ***The Attention Economy and Young People***
>
> **(August 8th, 2025)**

The bigger story is AI's potential to unlock productivity and innovation across industries—from faster drug discovery to mainstreaming autonomous driving. It is also the digital backbone of what author Kyla Scanlon calls the *'attention economy'* or the race for consumer engagement on platforms like Netflix or Amazon. Estimates suggest AI could add over $11 trillion in economic value, which is an enormous figure, even if only half proves true[ix]. That scale explains[ix] why just four companies—Meta, Amazon, Microsoft, and Alphabet—plan to spend over $300 billion this year building out AI infrastructure and capabilities. And those investments just gained fresh financial fuel.

Signed into law on July 4, 2025, the One Big Beautiful Bill Act introduces immediate expensing of capital investments in domestic research and development. This represents a significant tax incentive. At the same time, monetary stimulus is emerging as another force: two to three interest rate cuts are now expected by year-end, with more likely in 2026[x]. This will reduce the cost of debt financing for corporate investment. Taken together, three powerful forces—corporate, fiscal, and monetary—are converging to drive AI investment.

This wave of capital investment will be a springboard for both visible and hidden innovation. On the visible front, industrial giants are allocating 25% of their capital spending for robotics and automation over the next five years[xi]. Less visible are the tangential opportunities, such as the surge in internet connectivity and bandwidth required to support AI-driven advancements. One of our platform venture capital managers calls these "net new" problems, and they are backing the companies working to solve them. An untold growth story remains, with many chapters still being written in the private markets.

Vanishing Act

Private markets may sit outside the spotlight but are an investing ecosystem fueling significant value creation. Take Airbnb. It had its initial public offering (IPO) on December 10, 2020, opening at $146 a share.

At the end of August, it traded at $131. So, despite the IPO fanfare and Airbnb's business successes, the real winners were its private owners who sold at the IPO. This is a vivid example of a broader trend that public markets are no longer as essential for raising capital or building brand awareness. As a result, companies are staying private longer. This dynamic has underpinned the number of private businesses with revenues above $100 million having more than doubled over the last decade to 58,000[xii]. The odds are rising that the next AI leader is already in the private markets, which is why we systematically review and subsequently approve institutional-caliber venture capital funds. Time and again, we find investment value outside the spotlight.

It would be easy to misinterpret this trend's impact on public markets. It does not mean abandoning public equities, which themselves are undergoing a kind of vanishing act. The U.S. had more than 7,000 public firms in 1996, and less than 4,000 two decades later[xiii]. This generational shift helps create a scarcity premium. Reinforcing that scarcity is the fact that U.S. companies are projected to repurchase over $1.1 trillion in shares (a record sum) this year with Apple alone planning $100 billion in buybacks[xiv]. These forces support their pre-tax value, and there are also avenues for after-tax value creation.

Volatility is both a bug and a feature of stocks. There have been 48 corrections (declines of 10% or more) since World War II, and these episodes often create opportunities to purchase oversold assets and harvest tax losses[xv]. The latter is where our Aris technology shines, allowing us to act with precision and discipline. The volatility earlier this year served as proof of this concept.

In a recent article for *Financial Advisor Magazine,* our Chief Technology Officer and Investment Management Partner Dan Burke discussed our tax-loss harvesting strategy during that period:

"High-net-worth client advisors often manage hundreds of clients and thousands of securities. But market opportunities do not wait until firms are ready. That April market event unfolded in a matter of days—not months." [xvi]

Speed of execution proved decisive. Many of the stocks that sold off most sharply in this year's correction were also the first to rebound. For instance, Nvidia closed at $94 a share on April 2 and closed the month of August at $174. Those who failed to quickly harvest losses in these oversold names created a risk often unseen—opportunity cost.

Too Much Hype?

While artificial intelligence carries enormous potential, also seen at times is hype that borders on excess. As Sam Altman remarked in August:

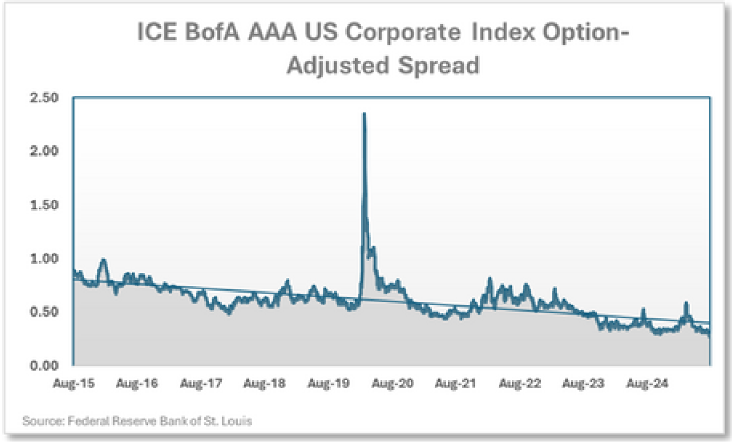
"Are we in a phase where investors as a whole are overexcited about AI? My opinion is yes."

This was from the CEO of OpenAI, a company reportedly valued at $500 billion in private markets, and whose very identity is tied to the AI story[xvii]. It was a headline that conjures up the ghosts of the late 1990s tech bubble. But it was not the whole story. Altman continued:

"Is AI the most important thing to happen in a very long time? My opinion is also yes."

His comments were more balanced but still highlight a key point that valuations matter. On that front, we remain cautious.

According to OpenAI's ChatGPT, risk-seeking behavior reveals itself when lenders demand less of a premium for taking credit risk. Today, there are corners of the bond market with spreads not just low—they are generationally low. At the end of August, option-adjusted spreads on the ICE BofA AAA U.S. Corporate Index fell to just 0.3%, the narrowest premium over Treasurys in a decade[xviii]. Even lower-quality BBB-rated corporates trade at spreads of only 1.0%, well beneath the long-term average of 1.9% since 2000[xix]. This reduces our conviction in comparable bonds as the opportunity cost of not owning them is limited. Still we remain mindful of behavioral biases (availability bias among them) as history shows such conditions can persist far longer than expected. A similar dynamic can persist with stocks.



Predicting every twist and turn of equity multiples is difficult, but history shows valuations themselves can be a powerful tailwind for extended periods. Consider that three-quarters of the gains of the 1982-2000 bull market were attributable to rising price-to-earnings (P/E) ratios. In December 1982, the S&P 500's earnings per share stood at $31.72. At the end of the bull market, they were $70.39. But the broad equity indices gained 1,000% as the P/E ratio expanded from 7 to 34 over that period[xx]. Secular markets are shaped by fundamentals like earnings growth and interest rates. But today's market is also propelled by a technological wave reminiscent of the internet's mainstream adoption and we believe a higher multiple is justified. On that point, we share the same guiding light as Altman—AI is one of the most important developments in a long time.

In Parting

As we review the current quarter, headlines have captured much of the attention. Yet it is often the less visible forces that shape market direction. The technological wave unfolding now, including areas less visible to the public eye, is unlikely to become obsolete anytime soon. As always, our priority is helping you navigate these forces with discipline and foresight. Please reach out to your relationship team to learn how these themes are incorporated into your individualized portfolio.

If you would like a copy of Jacques Peretti's *The Deals That Made the World,* please let your Relationship or Investment Manager know and we will send you a copy.

For more information visit us at:
www.callanfo.com

[i] Investors traded a record $6.6 trillion worth of stock in the first half of 2025, MarketWatch (July 5th, 2025)
[ii] CBS News (Money Watch) column by Mary Cunnigham (August 1st, 2025)
[iii] Fortune column by Jason Ma (August 3rd, 2025)
[iv] Morningstar data (August 29th, 2025)
[v] Same as Ever, Morgan Housel (2023)
[vi] Who is Matt Deitke? 24-year-old AI genius who rejected Meta's $125 million offer and then Mark Zuckerberg personally met him with a doubled package, MSN (March 8th, 2025)
[vii] Many top engineers of Meta are joining my AI company xAI, and I am paying them ..., says CEO Elon Musk, MSN (April 8th, 2025)
[viii] Meta to spend up to $72B on AI infrastructure in 2025 as compute arms race escalates, Tech Crunch (July 31st, 2025)
[ix] The economic potential of generative AI: The next productivity frontier, McKinsey & Company (June 14th, 2023)
[x] CME Group FedWatch (August 29th, 2025)
[xi] Humanoids on Hold: The Physical AI Connectivity Crisis, Aditya Singh (August 12th, 2025)
[xii] Cota Capital webinar (June 25th, 2025)
[xiii] Where Did All the Public Companies Go? Dartmouth University (September 26th, 2024)
[xiv] @CharlieBilello (August 11th, 2025)
[xv] Here's how often S&P 500 corrections turn into bear markets, Seeking Alpha (March 13th, 2025)
[xvi] Three Things Most Advisors Miss About Tax-Loss Harvesting, Financial Advisor (July 16th, 2025)
[xvii] OpenAI in talks to sell around $6 billion in stock at roughly $500 billion valuation, CNBC (August 15th, 2025)
[xviii] Almost Daily Grant's (August 18th, 2025)
[xix] Federal Reserve Bank of St. Louis
[xx] *How Not to Invest*, Barry Ritholtz (2025)

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