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# SPECIAL AI NEWSLETTER

ST. THERESE FINANCIAL LLC

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““it meets every condition of the railroads and the internet. It’s a powerful idea that’s attracted everybody’s money. No one has any doubts.” ~ Jeremy Grantham, Founder of GMO

Is AI guaranteed to change human life forever? Is AI guaranteed to grow at the time frames we dictate? Is AI a guaranteed profitable investment? Is AI guaranteed to be infallible? Is AI guaranteed to always tell a user the truth? The answer to all of those questions is, no. Yet, it feels as if the world is telling us the answer is, yes. Given the uncertainty surrounding the pace of AI adoption, corporate spending, valuations, and the ability of companies to generate sustainable economic benefits from AI, investors may wish to carefully evaluate the risks before making an investment based on expectations for continued AI growth. Not that it can’t be successful, but rather, the usefulness of AI is not clear.

In this newsletter I am going to breakdown a few key concerns I have with AI. Not saying someone shouldn’t invest in it but, to show that AI has its risks especially during a time where I believe the markets are at their most dangerous. The concerns I will break down are the following:

- How is AI any different than the railroads?
- Big tech is throwing a party and nobody wants to go.
- AI is like the kid I copied off of in physics class.
- Can AI be trusted when the stakes are high? Or at all?

***Concern #1: How is AI any different than the railroads?***

Jeremy Grantham, British investor and co-founder of GMO LLC, stated “It [AI] meets every condition of the railroads and the Internet. It's a powerful idea that's attracted everybody's money.”. Branching off that quote, take the railroad bubble and ensuing Panic of 1873.

In the US from 1866-1873, thirty-five thousand miles of railroad track were laid down, railroads were the largest non-ag employer, and railroads were receiving large amounts of money for investments [7]. This led to a bank panic, fourteen percent unemployment, and eighty-nine railroads and eighteen thousand businesses declaring bankruptcy between 1873-1877 [9]. This was originally called the great depression until 1929 came along and was officially renamed “The Long Depression” [10]. Consider this theoretical situation; imagine at the end of 1872 you are in your horse and buggy and watch a train speeding down the track carrying goods and commodities to the other side of the country. You would look at that and say “that is going to change the world”. You then decide to invest all of your savings in a few railroad companies hoping to reap the benefits of this new technology. Best case scenario you invested in a company like Union Pacific (still exists today) that went into financial distress during the Panic of 1873 [23]. Worst case is you invested in one of the eighty-nine railroads that went bust and you lost everything. Technologies can be revolutionary and bad investments simultaneously.

***Concern #2: Big tech is throwing a party, and nobody wants to go.***

If AI is making incredible leaps in capabilities, then why are 95% of companies not seeing a benefit? [6] A recent MIT report called: The GenAI Divide State of AI in Business 2025, stated “Despite $30–40 billion in enterprise investment into GenAI [6], one 2025 MIT report examining enterprise adoption of generative AI reported that 95% of organizations surveyed were not seeing a measurable return from their AI investments at the time of the study. (The study's methodology, sample, definitions, and timing should be considered when interpreting this finding, and the result should not be viewed as evidence that AI investments generally cannot produce economic benefits). If ninety-five percent of companies are not seeing the return on investment, why are the big tech companies spending hundreds of billions of dollars on buildouts? Alphabet, Microsoft, Meta, and Amazon are expected to spend a combined amount of nearly $700 billion in 2026 on AI buildouts [15]. That is being funded through free cash flow where companies like Meta will be using 90% of free cash flow to pay for buildouts while companies like Alphabet just announced a $25 billion bond sale and its long-term debt has quadrupled to $46.5 billion [15].

What is also interesting is how equity investments in OpenAI and Anthropic distort the earnings for these companies. Amazon saw earnings jump 240% from a year ago [25] but, without their Anthropic investment it would only be 17% [16]. Alphabet has a 5% stake in SpaceX and saw their earnings jump nearly 300% [26] but, without SpaceX it would only be 23% [16]. These equity investments can also affect reported earnings, making it important to distinguish investment-related gains from earnings generated by the companies' underlying operating businesses and where those earnings are coming from. Microsoft invested billions of dollars in OpenAI making sure they have the computing power they need and now OpenAI is a large customer of Microsoft’s cloud services [17].

An article from Harvard Law School's daily blog stated, "In September, OpenAI, the maker of ChatGPT, reached a deal to receive up to $100 billion in investments from chipmaker Nvidia to build data centers." [24]. "The partnership can be considered circular," writes CPA Brian Colello for investment research firm Morningstar, "as OpenAI will likely buy gear from Nvidia, which will reinvest those profits in OpenAI, which will likely use those funds to buy even more Nvidia gear." [24]. In that same article from Harvard Law School's daily blog, it stated "Then, in early October, OpenAI announced another huge deal with a different chipmaker, Advanced Micro Devices (AMD). In exchange for up to a 10% stake in AMD, OpenAI agreed to purchase AMD's chips for an undisclosed sum, writes Rob Wile for NBC News. "AMD is selling OpenAI both its chips and itself," which makes it an "unusual deal," writes Stephen Council for SFGate." [24]. If we take away the AI equity stakes and circular dealings, how much money are these companies really generating from AI? How many other non-tech companies are using this service and does it justify the hundreds of billions of dollars that are being spent on infrastructure? The answer to that question is unknown and that is concerning.

***Concern #3: AI is like the kid I copied off of in physics class.***

When I was in high school, I took Honors Physics my junior year. To say I was "not great" at physics would be like saying the 2008 financial crisis was "not great" for the world economy. I was awful and I had no idea what was going on. For assignments and tests, I would copy off of the kid next to me that I "thought" knew more than me. The problem was that I knew so little about the subject that I wasn't able to tell if that kid actually knew what he was doing or if it was the blind leading the blind. Needless to say, I didn't do well.

That is the major problem with AI. If you know what you are doing, AI can be a useful tool to enhance your abilities and help you make improvements quicker. If you don't know what you are doing, then you are at the mercy of AI and hoping that it isn't making a mistake. Which, in low-stakes situations, isn't that big of a deal. If I want to know a list of the top ten home run hitters in history and AI gets that wrong, not a big deal. If I am a doctor analyzing MRI scans and AI gives me an incorrect diagnosis, that's a very big deal.

***Concern #4: Can AI be trusted when the stakes are high? Or at all?***

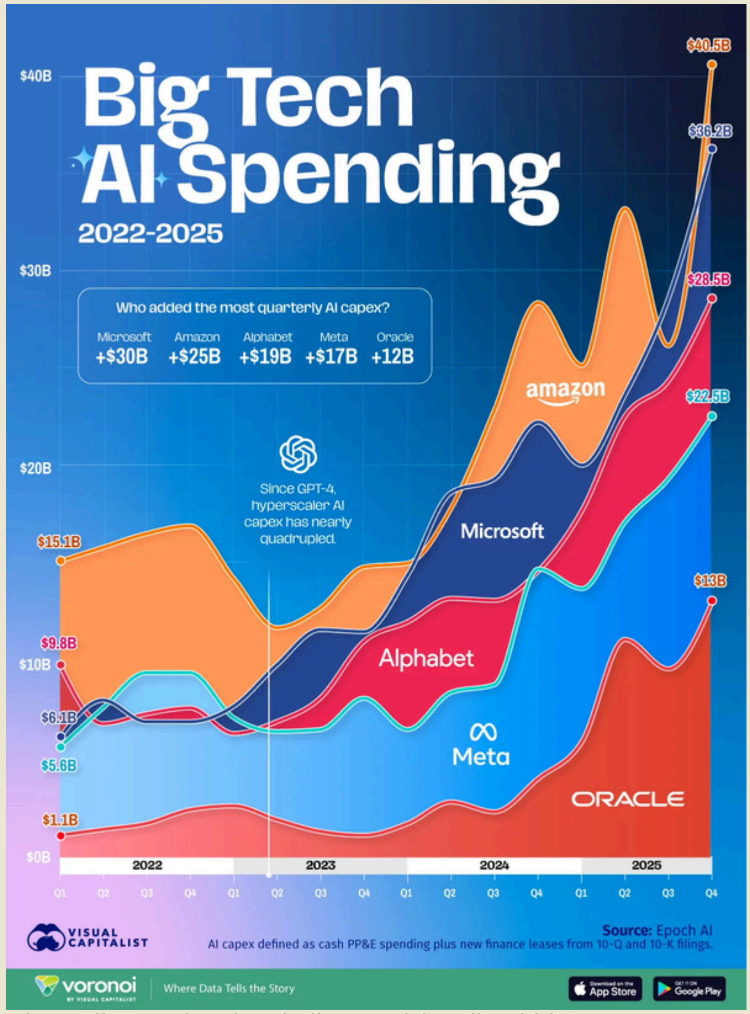
OpenAI has acknowledged that AI systems can produce incorrect or fabricated information, commonly referred to as 'hallucinations.' [20]. Going back to a few scenarios I listed before, if a doctor is dealing with a life-or-death diagnosis, or an employee can lose or gain a billion dollars on a presentation, or if a CEO makes a decision that if wrong loses thousands of jobs, will AI be trusted? The higher the stakes, the more important it is that the decision be correct. AI also bears no responsibility. If the doctor makes a wrong diagnosis, he can't blame AI for his error. Imagine you had an incredibly intelligent assistant that spoke confidently when he was right and wrong and couldn't tell when he was right or wrong. Chances are that you are going to double check and verify everything that assistant says. However, if that's the case, would you keep the assistant?

# US MARKETS UPDATE

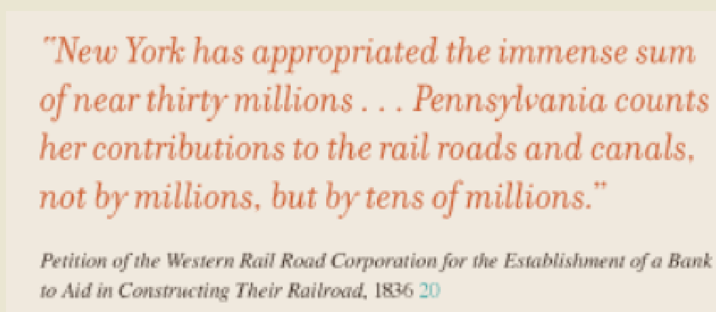
If you are thinking about making an investment in AI, I would encourage you to ponder the following questions: what happens when AI is learning from people who have always had AI? What happens if AI doesn't improve and this is the best it is going to be? How do we know it is improving? Finally, and this is important, how do I know that AI is telling me the truth? If you are thinking of an investment in AI, it is important, like anything, to tread cautiously and do your research. Peter Lynch said "stocks aren't lottery tickets. Behind every stock is a company." [21] and "If you can't explain to an 11-year-old in two minutes or less, why you own the stock, you shouldn't own it." [22].

***What Could Prove This View Wrong?***

There are also reasons investors may reach a different conclusion. AI adoption could accelerate, businesses could achieve greater productivity gains than currently reflected in available data, and companies could ultimately generate substantial revenues and profits from AI-related products and services. In addition, individual companies and investments can have materially different valuations, competitive positions, and business models. As a result, concerns about AI as an investment theme do not necessarily mean that every AI-related company or investment will perform poorly.




*https://www.visualcapitalist.com/visualized-big-tech-ai-spending/*



"New York has appropriated the immense sum of near thirty millions . . . Pennsylvania counts her contributions to the rail roads and canals, not by millions, but by tens of millions."

*Petition of the Western Rail Road Corporation for the Establishment of a Bank to Aid in Constructing Their Railroad*, 1836 20

*Petition to Western Rail Road Corporation for the Establishment of a Bank to Aid in Constructing Their Railroad. Senate No. 16. January 1836. Boston and Albany Collection, Baker Library Historical Collections, Harvard Business School.*

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