Special Update: What the DeepSeek Moment Means for Investors

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Andrew Briggs, CFA®, CPWA®
Director of Portfolio Management| Wealth Manager

In the 1940s and early 1950s, computers were the size of buildings and used vacuum tubes - large glass tubes that were fragile and consumed enormous amounts of power, generating significant heat. A former IBM Chairman is thought to have said "I think there is a world market for about five computers." However, by the mid-1950s, semiconductor chips were invented which were far smaller, more efficient, and performed calculations much faster. This breakthrough led to the information technology revolution that continues today.

The recent reports around a Chinese artificial intelligence company called DeepSeek are reminiscent of the shift from vacuum tubes to semiconductors 70 years ago. Building AI models like those that power ChatGPT has been extremely expensive and only a few companies in the world have the resources to do so. Like the semiconductor revolution that dramatically reduced the size, cost, and power requirements of computing, DeepSeek has reportedly achieved a similar leap in AI efficiency.

What does this mean for investors?

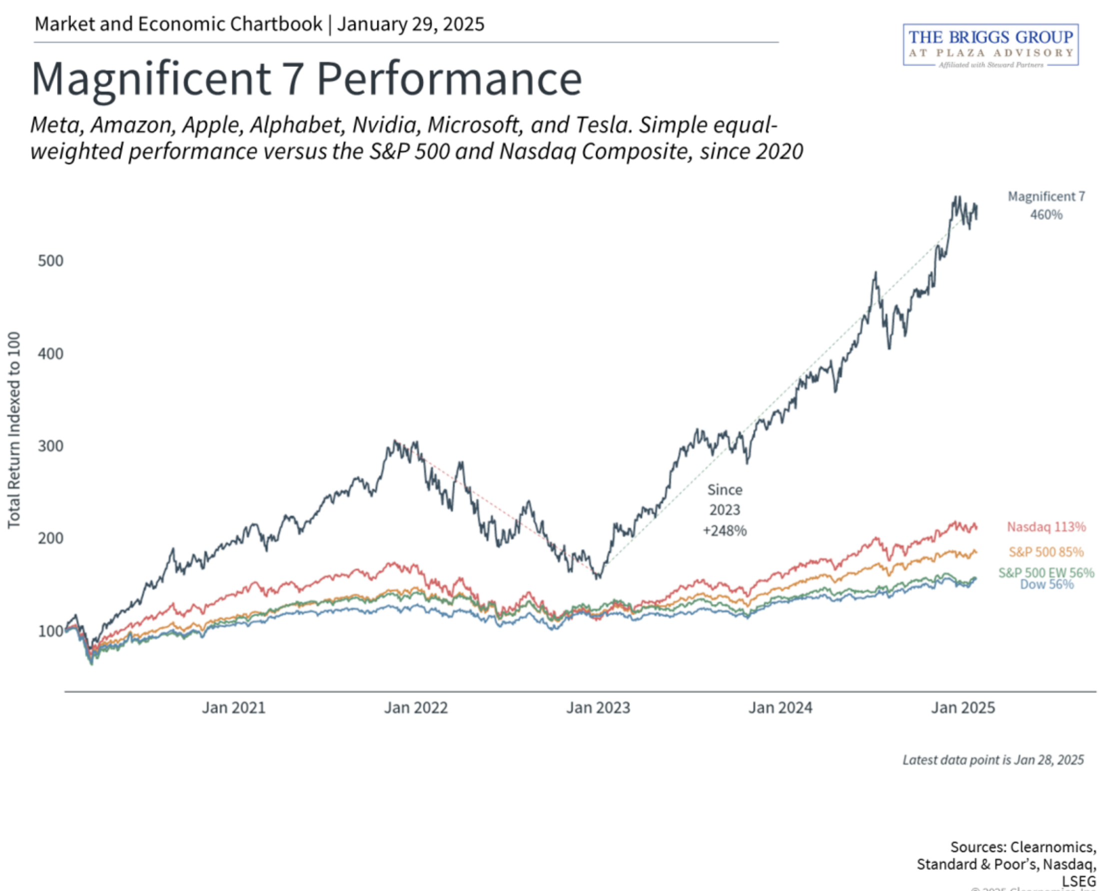
Just as there was a "ChatGPT moment" in late 2022 that sparked the current wave of AI development and adoption, the "DeepSeek moment" could be just as transformative. According to their published technical papers, they were able to build their most recent models with techniques that are 95% to 97% cheaper.

If true, these developments could represent a fundamental shift in how AI systems are developed and deployed, potentially broadening access to advanced AI capabilities while reducing the massive infrastructure investments currently required. Some investors worry this might mean the world will need fewer or smaller data centers, less processing power, and less energy.

This is the main reason markets, and AI-related stocks specifically, have reacted negatively. On Monday, January 27, the markets fell with the Nasdaq down 3.1%, and the S&P 500 down 1.5%. Despite this immediate reaction, and keeping in mind things can change quickly, the history of markets and technological change can help to provide a longer-term perspective.

To help make sense of this development, there are three important facts that investors should remember.

1. AI stocks have been significant drivers of the broad market

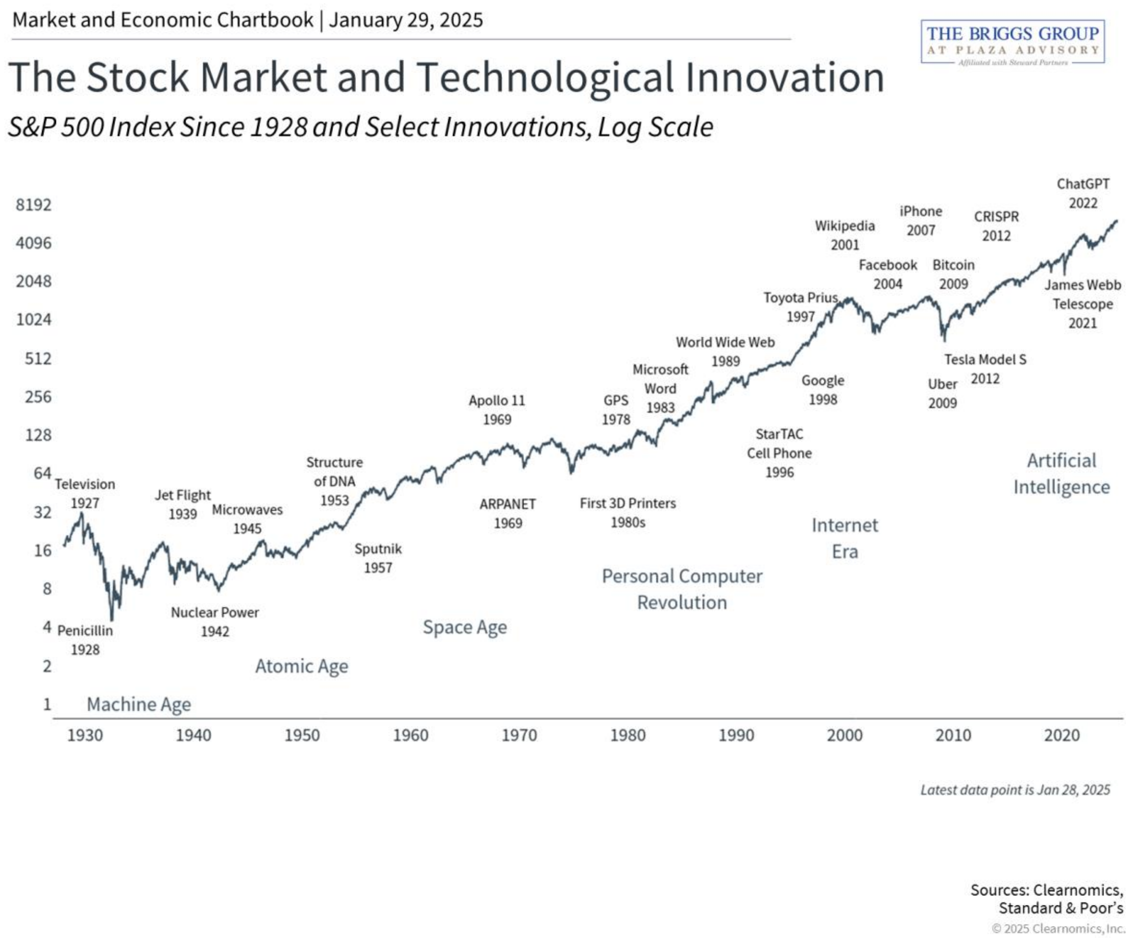


First, it's no secret that technology stocks, including those in the so-called Magnificent 7, have driven markets over the past several years. Some investors have worried about the sustainability of this rally for quite some time, as well as about market breadth and the potential vulnerability to technological disruption.

Since the S&P 500 is weighted by the size of companies, stocks like Nvidia can become overweighted in investment portfolios. Investors may find that they are less diversified than they would like, or that their portfolios are far more sensitive to the movements of just a few stocks.

Regardless of how technology stocks perform in the coming months, recent market moves are a reminder that investing is not about making a few concentrated bets; it's about constructing an appropriate portfolio that is aligned with long-term financial goals, ideally with the guidance of a dedicated advisor.

2. Technological advances drive long-term growth

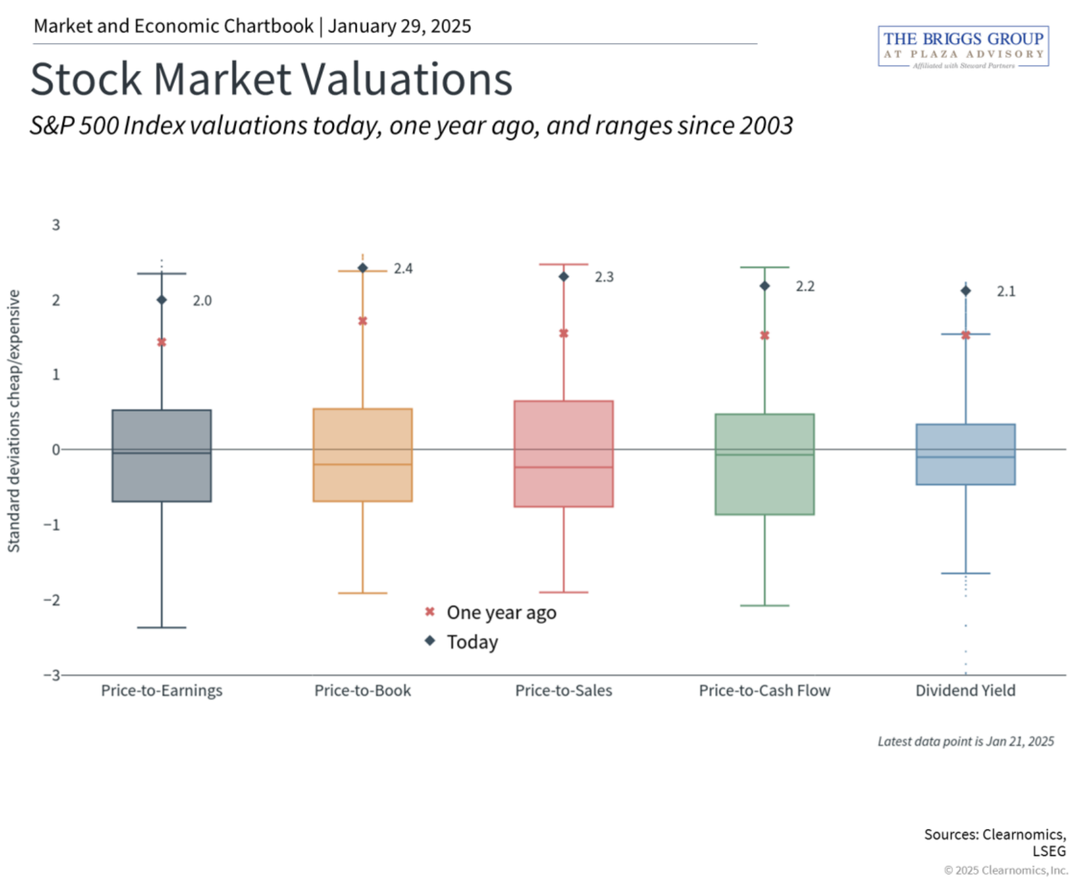


Second, the real benefits of new technologies take years or decades to play out. As computer scientist Roy Amara said, investors tend to overestimate the impact of technology in the short-term and underestimate the effect in the long run.

While markets have shown strong enthusiasm for AI, we are likely still in the early stages of understanding how this technology will reshape the economy and our lives. For example, the latest market reaction is driven by the “supply side” of the AI story, i.e., those that provide chips. The other half of the story – the demand for AI capabilities – is still in its infancy.

This is often described as the Jevons Paradox, which states that increased efficiency can result in greater use of a resource, not less. For example, the invention of semiconductors did not result in just more efficient computers, but the ability to use chips in all devices. This created consumer applications that were impossible to imagine in a world of vacuum tubes. Similarly, the possibility of small but powerful AI models could have transformative effects that require more, not less computing power.

3. Stock market valuations are near historic levels



Finally, stock market valuations are approaching dot-com levels, especially among AI-related companies. This is sometimes referred to as being "priced to perfection," meaning that current stock prices reflect extremely optimistic expectations about future growth and profitability. When valuations reach such elevated levels, even small changes can lead to significant price adjustments.

Stock valuations are not a market-timing tool and do not predict what markets will do over the coming months. During bull markets, stocks can grow increasingly expensive for long periods. However, valuations are extremely important when deciding on the right mix of assets for your portfolio.

Ultimately, investors should focus on positioning themselves for long-term growth with a properly constructed portfolio and an understanding of current valuations. A well-balanced approach that includes exposure to different sectors and asset classes can help weather short-term volatility while benefiting from technological advancement and economic growth.

The bottom line? Despite recent news and stock market swings, transformative technologies like AI create value over decades, underscoring the importance of maintaining a long-term investment approach and financial plan.

Plaza Advisory Group Affiliated with Steward Partners

101 S. Hanley Rd. Suite #1350

Saint Louis, MO 63105

314-726-0600

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