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# Cadence *clips*

FOCUSED ON WHAT MATTERS MOST.

## Official Unintelligence

By Casey Clarke

For those still playing the stock market, or just passively overexposed to it, the topic of Artificial Intelligence is an important one to address. The fact is, the biggest tech companies in this sector have driven much of the stock market gains in recent years, and the ability of the market to hold onto these gains comes down to just how much value these firms are going to be able to provide going forward. Although this isn't the first stock market bubble I've experienced, and so much of it, including the corresponding human behavior rhymes with those before it, the irony of this particular one seems rich given that the sector driving it has so much to do with perception, emotion, and human decision-making. It's hard not to feel like our insatiable appetite for more information at an increasingly faster rate has primed us perfectly for the technology that now promises to change the world by making the synthesis and digestion of this river flow of data easier. There are aspects of this that are unambiguously positive, as anyone who's summoned a modern Artificial Intelligence (AI) engine can attest. But we'd be short-sighted if we didn't acknowledge the risk of this effi-

ciency hack in bypassing the process required for discovering, discerning, and learning. This sets up somewhat of a Faustian bargain where in an effort to preserve time and energy for the promise of quick solutions, we are at dire risk of becoming officially unintelligent. Artificial Intelligence is without question a powerful tool that has a plethora of positive use cases, but as with most things, there's more to it than that.

The most logical way to evaluate the role of AI in both the stock market and broader economy is to weigh the arguments both for it and against it. The goal isn't to be exhaustive here, but to cover the salient points and get a general orientation. Then, we can dive into whether what we're seeing from AI companies and their stock performances are consistent with general reality behind the AI story.

### Fuel for New Highs

The AI story has followed a pattern that every profit-driven narrative has exhibited prior; the benefits are

hyped while the risks or downsides get minimized. Bold claim, sure, but the unfortunate reality is that when big investors, be they government, corporations, or people, stand to profit (or otherwise benefit) from a particular narrative-driven business activity, there is every reason to exaggerate the benefits and virtually ignore the risks. This is undoubtedly happening with AI at the moment. Here's the bullish market argument...

With artificial intelligence, corporations can run more efficiently. Innovation, production, and distribution can all take place seamlessly with lower costs. Consumers will get better, less expensive products. Artificial intelligence will be disinflationary because of this efficiency, leading to a happy consumer. In addition, the average person will have access to information faster and will be able to tap into knowledge bases seamlessly without friction. We will have it all at our fingertips. This sounds very compelling and there's certainly some truth to these sentiments. The ability to ask a computer to scour the web for answers to complex questions that can be returned in seconds is truly amazing and this is a clear benefit so long as the information coming back is correct. Computers and machines can make life much easier, and to the extent AI is just a super fancy one, it's easy to extrapolate and see the appeal, especially given the time-saving nature of what we're experiencing right now on our own laptops or cell phones.

Extrapolation, however, has limits. It's one thing increasing longevity from 60 to 90 years, but should we endeavor to take it to 200? Clearly, there could be some unintended consequences such as a potential mismatch between brain and body health along that path, or the economic impact of supporting people for that much longer. What about a medical intervention promising good health, so long as that intervention is maintained in perpetuity? Could it be disincentivizing more traditional approaches to good health that have other positive psychological benefits, such as hiking and forest-bathing (this refers to getting the body out into nature and amongst the trees)? Many would see some issues here. Extrapolating the clear benefits of certain innovations through the more, faster, easier paradigm can be problematic.

In August of this year, MIT released a study that looked at 300 corporate AI rollouts and found that 95% of them haven't yet seen marked improvements in profitability as a result. Billions spent, yet no profitability is another way of saying, "cool tool, but no way to use it for clear benefit". Two major potential drawbacks of AI are also its impact on employment and ability to manufacture perception. With respect to employment, whatever jobs AI can do that humans now perform, makes for an easy cost-cutting decision for corporations or even smaller firms. Of course, replacing employees with AI needs to be cost effective, but assuming that it eventually will be could pose major problems for a host of jobs that people now perform. Sure, the pushback on this criticism is that the elimination of these jobs will free up labor for new, more productive jobs across society, but to the extent this replaces 100% of lost jobs is probably wishful thinking. Prior to the AI rollout, the economy wasn't swimming in available jobs. Offshoring, machines, and computers have already taken many of them. To expect that this trend somehow reverses, at scale, probably isn't realistic. This begs the question, how helpful is that super high-speed Google search that produces answers in seconds for someone who's unemployed? How about for millions who are unemployed? There's a saying that too many young men without jobs can be a dangerous situation. One wonders how having lots of free time, feelings of desperation, and a more turbo-charged internet ready to shape thought and action might build on that.

This gets us to our second big potential drawback of AI – what if the information coming back isn't accurate? A report published by BBC last month (October 22, 2025) found that 45% of AI assistants returned inaccurate information. What's worse is that the misrepresentations are presented in a dangerously overconfident way, which can keep the curious sleuth from looking any further into an issue. As we discovered repeatedly in recent years, when it comes to sensitive issues and topics, Google searches can prioritize certain web pages over others giving users the impression that certain viewpoints or data sets are more prevalent than others. This form of censorship is particularly pernicious because only the ones who are censored or are closely aligned with those being censored are

aware it's even taking place. To the extent AI is a super high-powered, confident search query, the ability of its programmers to use it for narrative and perception control on a population that is already suffering from information overload and looking for shortcuts, is tremendous. Keep this in mind if you're wondering if AI stocks are in a bubble and find an AI assistant telling you that they're not, to put your life savings into AI stocks, and that anybody claiming that they are a bubble is a crazy conspiracy theorist. Hmmm.

## The Hype

Now that we've done a basic overview of the benefits and risks of AI, the question is, does its presence change the dynamic of this stock market to the point where we should no longer be worried about a bubble? In other words, will AI allow this expensive market to grow into itself thus making it a low-risk, rational investment? We think there's probably a better chance of politicians suddenly refusing corporate campaign contributions and actually working for their constituents than AI mollifying the biggest bubble in U.S. market history.

First, as the MIT study discovered, corporate AI adoption hasn't yet led to any notable, widespread increase in profitability. Will it? Probably, but there could well be offsetting forces that hamper profitability such as increased joblessness and a resulting dip in consumption.

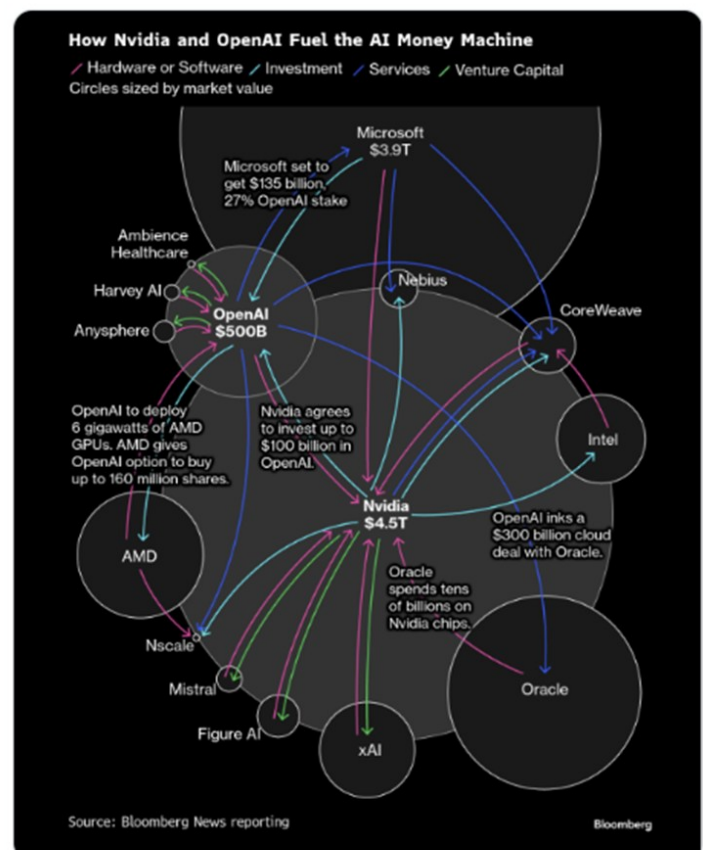
Second, the big tech firms leading the AI revolution are not nearly as profitable as they would need to be for their positive impact on markets to be sustainable. As many have recently reported, the activity within the AI ecosystem very closely resembles the questionable business and accounting practices observed in the Tech Bubble of the late 90's with vendor/circular financing providing much of the fuel behind the current slurry of economic activity seen from the sector. For those not familiar with vendor financing, it is essentially where one firm gives another firm money with which to buy their products, presumably because the buying firm wouldn't be able to afford the transaction otherwise. There are a host of other accounting tricks around the recognition of revenue that can accompany this scheme to further boost the appearance of revenue and profit that wouldn't exist otherwise. Michael Burry, the famed mortgage-backed debt short seller made famous by the movie *The Big Short*, has recently spoken out against these practices within the AI sector. In a recent post—referenced to the right of this text—he neatly sums up the circular financing concept.

When you consider these accounting games that are being played by the companies that have contributed most to recent positive stock market performance, it becomes apparent there isn't nearly the business and economic activity that the report-



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Every company listed below has suspicious revenue recognition. The actual chart with ALL the give-and-take deals would be unreadable. The future will regard this a picture of fraud, not a flywheel. True end demand is ridiculously small. Almost all customers are funded by their dealers. If you can name OpenAI's auditor in 1 hour you win some pride.



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ed numbers imply there is. Additionally, when this daisy chain of questionable dealings comes to an end, the impact will likely be quite severe. These investment themes that turn into manias always come to an end for the simple reason that the set of circumstances that allowed the mania to proliferate eventually breaks down, triggering an emperor has no clothes moment. Which of those particular variables will change first – availability of credit, a private equity or banking event, a large-scale fraud being discovered, forced investor selling of AI shares – we just can't forecast. The important element in protecting oneself from the implosion of a mania is identifying the conditions that will eventually lead to it. Check.

It might be helpful to look back at another mania that didn't quite play out the way the narrative at the time would have led one to believe - the Tech Bubble of the late 90's. The internet will change the world, profits will eventually come, etc. The first part of this was absolutely true – the internet has unquestionably changed the world for better or worse. The latter part was also true, but for only a small handful of the tech companies that survived the market collapse and went on to lead their respective product and service niches. However, the question is, how would investors have fared if they bought into the hype and stayed invested in tech stocks in 2000 and beyond, versus investing in something more reasonably priced, and albeit, less interesting at the time? Below, we see a comparison between the Russell 2000, an index of 2000 of the smallest U.S. stocks, compared to three of the biggest tech stocks that survived the tech collapse - Microsoft, Intel, and Oracle - beginning in March 2000 through 2014. As is clear, one would have suffered very poor returns for well over ten years had they remained in over-hyped tech stocks for too long. And crucially important to remember, these are three stocks that survived. Had investors held any number of other tech stocks, they could have lost everything. There is no way of knowing ahead of time which companies will survive a bubble implosion. The emergent nature of a stock bear market has seen plenty of large successful companies get knocked out in fairly short time. It's worth noting that Microsoft and Oracle had price to sales ratios in the high-20's, and Intel in the mid-teens, at the peak of their share prices in early 2000. Nvidia's price to sales is currently in the mid-20's.



## Takeaways

All of this is to say that we're thinking about AI's impact on the markets in two distinct ways.

First, there's the effect that the stocks of the large AI firms will likely have on investors going forward. Given today's insane valuations, the outsized weight these AI companies hold within the broad market, borderline fraudulent accounting practices, and circular and interrelated nature of the entire industry, the end result for markets will not be positive. This opinion has nothing to do with whether AI will be part of our world in 20 years and is completely independent of that thinking. Just like we saw a handful of tech firms survive and go on to thrive in the wake of the 2000 bubble collapse, the same will be true for AI. We're very likely to see the mania we're looking at right now end with investors in many companies losing everything - and if they're lucky, a handful of investors even in the ultimately successful companies lose extremely large amounts of money that they ultimately earn back over many years. As successful as Microsoft, Oracle, and Intel were from 2000 to 2015, their stocks still went virtually nowhere after taking deep losses followed by years of recovery. AI investors, beware.

The second impact we see AI making with respect to markets is less acute, and frankly, much more uncertain. How will the proliferation of AI affect employment? If unfavorably, how will fewer jobs affect the economy and markets? Additionally, how will the ability for AI to influence and control perception sway the course of events going forward? More interestingly, how will this scenario dovetail with a situation where the average American just lost half of their 401(k) in the wake of a long-overdue stock market correction?

These are important questions to ponder, especially as we struggle as a nation to find common ground with neighbors who may simply possess a different voter registration. The media has done a very good job of stirring the pot by manufacturing perception, and AI has the very real ability to turbo charge that influence if we're not vigilant in defending against it. If one isn't careful, and sadly, we should expect that most won't be, AI won't just misinform - it will make them officially unintelligent. The silver lining, however, is that like with every other really powerful tool, if it's used properly and carefully, it can be life-changing. Let's all make sure we commit to using it that way, and hope like crazy that others do the same.

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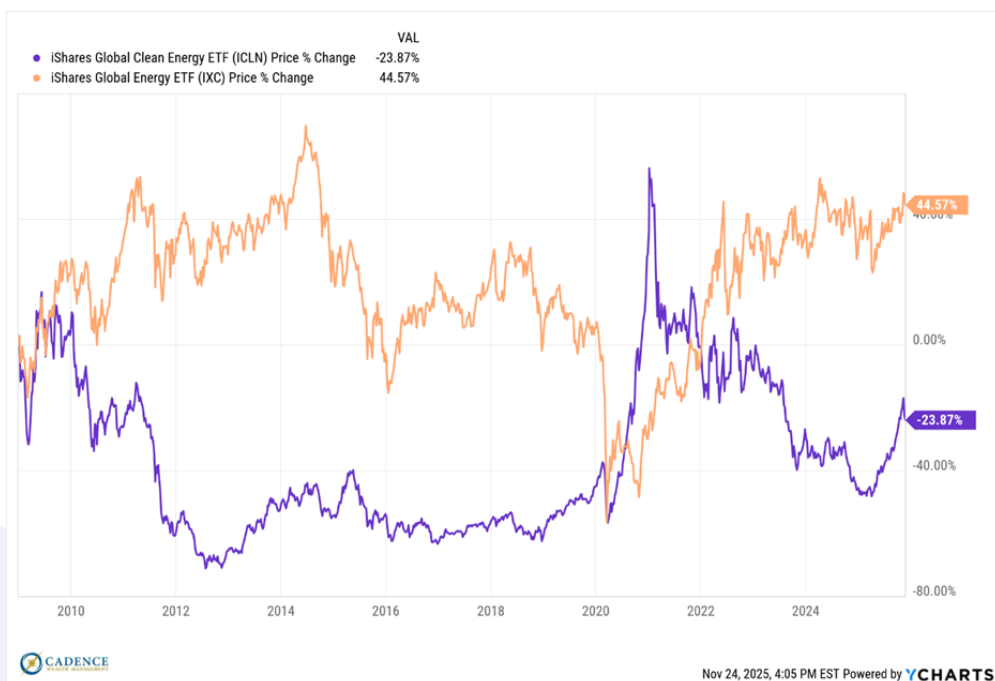
# The Clean Energy Deception

*By Casey Clarke*

There aren't many people out there that don't care about the environment. There also aren't many people out there who would willingly pay more for an energy source that didn't offer clear advantages over less expensive ones, but a narrative can go a long way toward shaping perception and behavior despite the facts underlying it. Take the "clean energy" movement that created almost as much hype among investors as it did profit for Wall Street. The gist, as we're all very familiar with given its proximity to the Climate Change narrative, is that traditional oil and gas energy is dirty, full of CO<sub>2</sub>, and therefore wrecking the planet, while wind, solar, geothermal, biomass, and others are clean, sustainable, and virtuous. This sounds really nice on its face, except for the fact that most of it isn't nearly as true as the narrative would have investors believe. We won't get into the details since most have been conditioned to view issues like these politically (by design), but suffice it to say that the clean energy movement hasn't delivered on the key aspects of its promise. Benefits have fallen well short in that the intermittency of wind and solar have limited its usefulness in large scale applications. The risks have been much greater than were

initially discussed in that the cost of electricity in areas that have integrated large scale wind and solar are higher than in areas that haven't. And the focus on it being clean, which is supposed to get you thinking about CO2 only at the time of use and not production, completely ignores other environmental impacts at every step in the lifecycle of wind, solar and other "clean" energy solutions. The final litmus test, however, is how companies that deal in these technologies have performed over time. As we can see below, from 2009 to present, a portfolio of clean energy companies has fairly dramatically underperformed a portfolio of traditional energy companies. The ETFs being compared are both iShares and both global. A good, sustainable technology that makes sense to the average consumer should be able to stand on its own and deliver a profit to the company delivering it, without pressure, and free of subsidy. If it can't, this is a tell that we should all be asking more questions. Even more so if the

risk/benefit calculation doesn't balance.



What's important to note is that this narrative, although deflating in real time, isn't finished just yet. The clean energy ETF (ICLN) shown in the chart to the left, still has a price to sales ratio of 5.7 and a price to book ratio of 6.2 compared to those of the traditional energy ETF (IXC) at 2 and 2.2 respectively. Put simply, the clean energy investment portfolio is still priced almost 3 times more expensively than a traditional energy fund, in large part due to the lingering

narrative around clean energy playing a much bigger role in the future than it does now. It's worth noting that in addition to price performance being better over the last 16 years for traditional energy stocks (IXC), they also continue to pay a dividend that's more than 2x that of the clean energy ETF (ICLN), at 3.6% versus 1.6%.

If the clean-energy promise were truly realistic, the current landscape would look very different. Valuations would be more reasonable and stable, dividends likely higher, and share-price behavior healthier and trending upward. The reality—if we're being candid—is that the bulk of the money being made from the clean-energy narrative is flowing to those promoting the "clean and green" story, not to the investors buying into it through public markets. As with many ideas that appear obvious and virtuous, there is often more to the story—and the lion's share of the benefits typically flows to the storytellers.

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