



## Addicted

*The State of the A.I. Trade 11-27-2025*

In their surprisingly upbeat pop ballad, Simple Plan explains in plain English what it means to be a teenager in love, incidentally describing human behavior in a nutshell – *“I’m trying...to forget that...I’m addicted to You, But I want it, and I need it, I’m addicted to you, now it’s overrrr, can’t forget what you said, and I neverrrr, wanna do this again...heartbreaker...HEARTBREAKER!!”* Literally anybody can relate to the feelings of infatuation or even love, followed by rejection and subsequent remorse. Simple Plan is speaking hyperbolically, though accurately, seen through the lens of a teenager who is perhaps experiencing rejection for the first time. While there’s a lot to unpack in this song, there is even more to it than meets the eye.

For one thing, the emotional rollercoaster of a first love has a lot of convenient overlap with investing in the market. The mental heuristics that humans use to manage their emotions through an investment cycle say a lot about where we came from, “Fight or Flight,” being one, loss aversion bias being another. Benartzi won a nobel prize for figuring out that humans feel the sting of loss about twice as acutely as they cherish the reward from a gain. In other words, humans are predisposed to hating the feeling of loss, so much so that it changes our behavior, perhaps detrimentally, in some cases. Nowhere is this more evident than in the stock market. Long bull markets create bad learned behaviors, and something I call extrapolation bias. Imagine being an investor in Nvidia since the bottom of the market in 2022 – since the end of the Fed’s rate hiking cycle, the price of NVDA has gone up over 1,200 %, a shockingly strong gain over such a limited time period. Seeing all that green on the screen, seemingly day after day, endows a sense of fulfillment or even pride in the stock, owing to our desire to “be right” and “be smart.” (As I have written about in a prior piece, this is one of the many reasons it pays to view your stocks as pieces of portfolio inventory, rather than like a human being who can be loved and adored.) Many investors will find themselves extrapolating forward the future returns of NVDA as if they will always be what they were in the three short years since 2022. Unfortunately, the laws of economics are at odds with human



behavioral bias, since the high profits that drove the strong stock results invite competition from equal competitors, in NVDA's case, that might be Google, Amazon, or AMD. This eventually drives NVDA's profits back to a cycle of normalization, at least in theory it does.

*"I can't pretend I don't care, when you don't think about me, Do you Think I Deserve This."*

This line in the song is almost a perfect analogy to how giddy investors feel about stocks that have created outsized returns for them. The second NVDA slips up, due, in fact, to potentially no other reason than the insanely high expectations investors have come to put on NVDA earnings and stock performance, investors (especially the younger and more inexperienced) are quick to sell the stock, fearing the loss-aversion bias, and quick to protect their gains and their feelings of intelligence. Unfortunately for everybody feeling this way, NVDA's management doesn't "think about you," as the song implies, and therefore doesn't care whether or not "you deserve this [feeling of inadequacy]." Because Nvidia's business isn't built to minimize the loss-aversion bias of any particular investor, it is built to outcompete the other best semiconductor companies in the world. And in playing that game, sometimes Nvidia management does and says things that may give the depiction of a short-term backpedal, but usually, if not always, with the long-term goal in sight of maximizing shareholder profits. A good example of this might be Jensen Huang letting go of some of the focus on video games that used to be a big driver of his business, in pursuit of the higher profits ultimately available in the lucrative data-center chip market. Investors need to overcome the mental mouse-traps lurking in their own DNA in order to see the forest in spite of the trees. Unfortunately, Myopia often prevails as it feels so good to take a short-term win by preserving one's own feelings of adequacy, rather than undergo the more rigorous and ultimately rewarding exercise of thinking long-term, often at the expense of feeling like you have a security blanket. Remember, Nvidia doesn't owe anybody anything, it doesn't care about anybody's feelings. But that's a good thing. You wouldn't want the world's most powerful CEO making short-term decisions that might feel rewarding in the moment, even though they are clearly destructive to long-term value creation.



The whole idea of diversification, I am convinced, was conceived partially as a way to curtail the feelings of angst of holding large, volatile positions in one's own portfolio. If you can find an investment that zigs when your favorite company zags, and yet, still performs well over the long run, why not add such a winning idea to one's portfolio? This week was a particularly stark example of how the A.I. exuberance, and subsequent "teen angst" about it potentially unraveling, is driving broad-based investor repositioning. Beaten-down sectors such as healthcare have staged a comeback, outperforming broad indices by a remarkable percentage, over a short period of time. Healthcare is a particularly special sector, almost an economy and ecosystem unto itself. Many healthcare names trade with negative beta, or a predilection to do the opposite of what the market is doing on any given day. Earnings can be driven more by the efficacy of the particular strategies of the biotech, pharma, and med-tech leaders heading their particular companies. Notably, loss aversion had driven widespread dour sentiment throughout the sector over the past three years or so. Aside from Eli Lilly, whose remarkable weight loss drug has driven great shareholder returns, the sector has been among the worst performing of the S&P 500, and it isn't hard to see why. Nobody wanted to go into healthcare with the amount of non-market government intervention in the sector. But with potential storm-clouds gathering over the technology sector, there seems to be a logical reawakening in the seemingly inversely correlated sector of healthcare, which could be only the very beginning of a broader, multi-year re-rating cycle.

Notwithstanding the appeal of growth opportunities in sectors outside of semiconductors and technology, I still believe that investors would do well to avoid myopic thinking when it comes to the sector. What was concerning this week? It seemed to be driven by one man's opinion (Michael Burry) about the accounting treatment of Nvidia chips ([Michael Burry Critique of Hyperscaler Depreciation](#)). In short, he believes the depreciation (a type of accounting expense) used by other technology companies using Nvidia products, is too aggressive, causing income to look "too high." Nvidia's CFO has come out to address this issue. Additionally, there is data showing that older-dated Nvidia chips do indeed last 5-6 years. When assessing matters of your portfolio, it pays to overweight the hard data, earnings, and



macroeconomic conditions, at the expense of the opinion of a famed short-seller (who happens to also be trying to get people to sign up for an expensive newsletter.) In sum, while there is no good “blanket advice” to give on tech, I believe it comes down to existing investor positioning in the growth names in question. Are you materially underweight NVDA relative to your relevant benchmark? If so, this recent selloff provides an opportunity to get into the stock at a cheaper price, based on little more than market noise. Are you overweight NVDA? Perhaps this is a good time to take some gains off the table and re-deploy into healthcare and other underappreciated sectors. In essence, our “finance brains” should defer to the machinery we build in to buffer and our lizard brains from themselves. Frequent rebalancing is one such exercise. *(None of this is meant to provide specific investment advice, but rather a template of rational thinking in times of great market exuberance. You should always consult directly with your financial advisor before making portfolio decisions.)*

*Happy Thanksgiving to You and Your Family!!*

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