



10/09/2025

Weekly Webinar

INTRODUCTION – FOCUS ON FUNDAMENTAL ANALYSIS

An analyst for several decades

Senior Analyst - Value Notes

CFO - CPA firm business consulting

Analyst - Motley Fool and Seeking Alpha

CFO - L Capital, family office, project analysis and capital allocation

At Fountainhead, we believe that investing in businesses, whether it's a massive Google or a startup with \$200Mn in revenues. Every business must be valued based on their fundamentals, irrespective of their daily price movements over which we have little control. But we do have analytical ability to analyze and value businesses and base our decisions on how well they perform. If you've been familiar with my work in the past year and a half, I really like to go for businesses which are market leaders, and have strong, competitive advantages, very strong balance sheets, and great margins which allows them to price their products or services way higher than the competition. To me the biggest incentive to invest in a company is its "moat" or significant competitive advantages. The term "moat" was coined by the great Warren Buffett signifying an unbreachable competitive advantage, like a deep moat surrounding a castle to keep out intruders. The hugely successful Peter Lynch, also placed a tremendous emphasis on investing only in great businesses and not worrying about the market.

Four examples of companies with great moats are Nvidia with its high-powered GPUs, Google with search, Taiwan Semiconductor with its manufacturing operations, and ASML with its EUV lithography machines, without which you cannot create a high-powered GPU.

MARKET OUTLOOK

Trading and timing the stock market is a very difficult endeavor, and I've learned the hard way that it's easier to lose money more often than you make it.

Even though I don't emphasize or make decisions based on market forces or macro-economic factors it is very essential to benchmark and recognize important macroeconomic factors which will influence our choices to buy and sell and how to price our investments in different environments.

Right now, as most people point out, we are in a "stagflation" environment with overstretched valuations. What does that mean? High to medium inflation with medium to low growth or 2.8% inflation, which is sticky and stubborn, with slowing labor markets, and a housing market in complete distress.

When inflation is high, it is difficult to decrease interest rates because cheap money fuels inflation, and a stagnant economy essentially means that most increases are coming by increasing prices and not by selling more.

Overstretched valuations will get further overstretched if interest rates are cut further, cheap money fuels bubbles.

MARKET OUTLOOK - THE GOOD

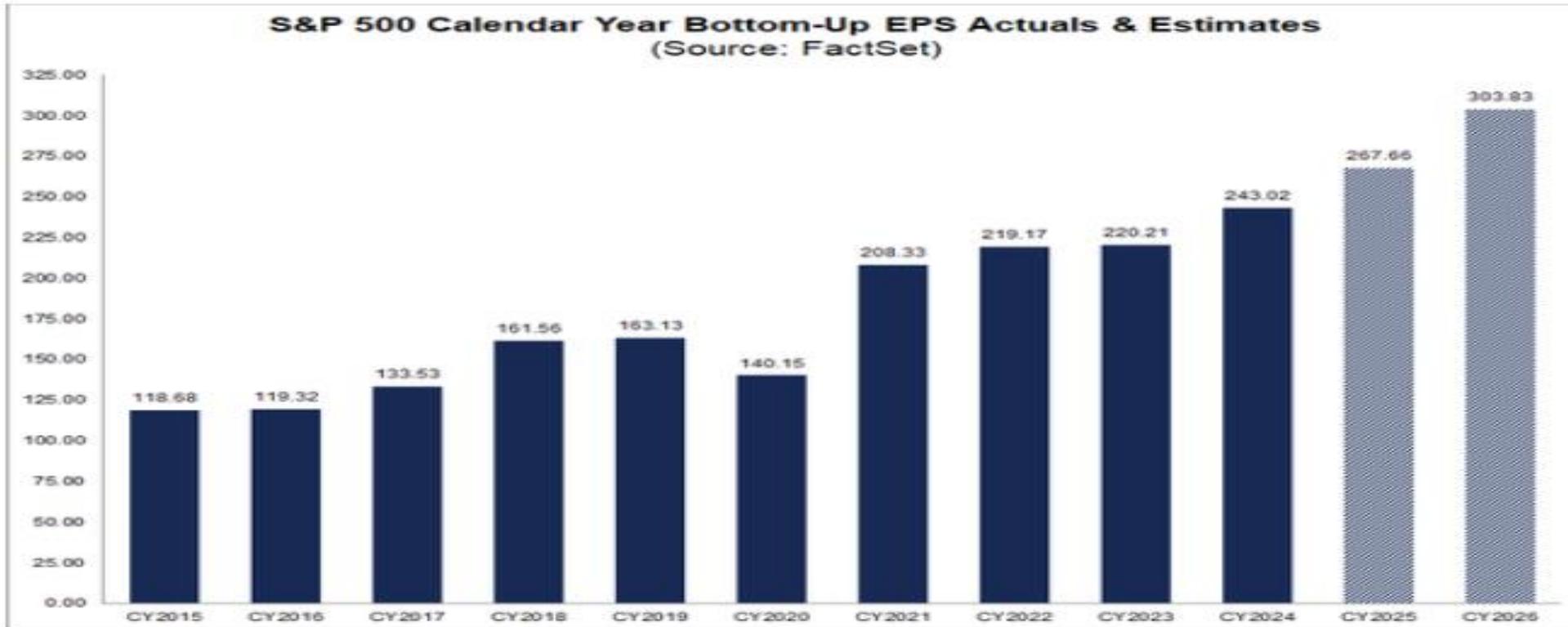
- **Earnings - Positive EPS Q3**
- **Most companies tend to sandbag – under promise and over deliver, the fact that they’re guiding higher, and way above the 10-year and 5-year average means it's going to be a blow out earnings season.**
- **Companies issuing positive EPS guidance are 56/112 or 50% - well above the 5-year average of 43 and well above the 10-year average of 39.**
- **The highest number of S&P 500 companies issuing positive EPS guidance for a quarter since Q2 2021 (66) and highest percentage of S&P 500 companies issuing positive EPS guidance since Q3 2021 (57%).**
- **Wedbush released a note this morning expressing confidence in the M-7, claiming that their channel checks indicate strong demand for enterprise AI solutions from Microsoft Azure, Google cloud and Amazon**

Q3 2025 TECHNOLOGY DOMINATES EARNINGS

- The Information Technology sector has the highest number of companies issuing positive EPS guidance of all 11 sectors at 36, which is 75% above the 5-year average of 21.4 and almost 100% above the 10-year average of 19.5 for the sector.
- This is the highest since 2006. The previous record was 29, which occurred in the previous quarter (Q2 2025), so sequentially strong as well.
- Second-largest increase in its bottom-up EPS estimate (+3.6%) for Q3 2025 during the quarter.
- The Information Technology sector has the highest estimated earnings growth rate of all ten sectors for Q3 2025 at 20.9%.

EXCELLENT EARNINGS GROWTH

Bottom-Up EPS Estimates: Current & Historical



VALUATIONS - GOOD NEWS FROM AI MAY ALREADY BE PRICED IN



IRRATIONAL EXUBERANCE

Debt: AI-related companies have issued a record \$141 billion of debt this year, more than the entire technology, media and telecommunications industry issued in 2024, according to Goldman Sachs research. That includes \$25.8 billion in total debt issued by Oracle, which is rapidly building computing capacity for OpenAI.

High Bullish Sentiment: Excitement over the artificial intelligence trade is stoking investor bullishness on US stocks while also raising the risks of a rapid selloff, according to Goldman Sachs Group Inc.'s trading desk. Bullish sentiment among the firm's clients stands at the highest since December 2024, with 40% of those surveyed expecting the S&P 500 Index to outperform other major global indexes in October. "Not so distant talks about high valuations and 'bubble' territory are forgotten as investors are ready to pile back into stocks," Oscar Ostlund, global head of content strategy, market analytics and data science for Goldman's digital platform Marquee, wrote in a report. FOMO, or the fear of missing out, "is starting to creep as the cost of being on the sidelines might be tipping the scales right now," he added.

Very High Valuations: The markets are always leading indicators or forward looking, and the best and perhaps the most extreme example I can give you is Nuclear power generating, mini reactor OKLO which is already priced at \$20 Bn with the first real earnings expectation of \$1Bn in 2031

A WEAKENING ECONOMY

Many economic indicators are showing weakness.

Labor markets are weak

ADP's monthly payroll report for September 2025 showed a net loss of 32,000 jobs versus expectations of 50,000 jobs created.

Prior to that the Bureau of Labor Statistics, showed a pitiful average of just 35,000 jobs created in the last 4 months. (They're not publishing because of the govt shutdown). The unemployment rate is still below 4.5%, but as we creep up to 5%, this is going to hit the economy hard.

Housing market needs to recover

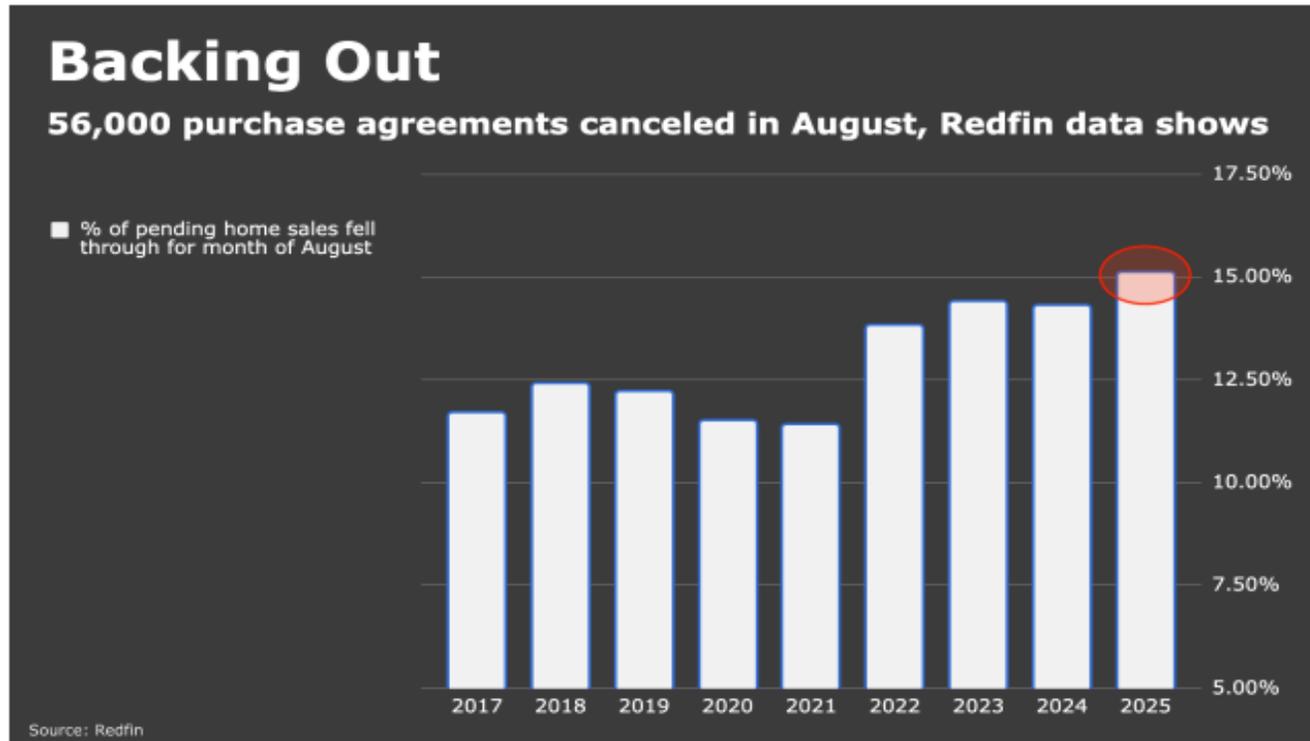
Housing is about 15-18% of the economy, with mortgage rates still over 6% the recovery will take very long.

The typical home has spent 62 days on market, a week longer than September of last year.

Nearly 20% of listings saw reductions in September, Evercore ISI cut its ratings on major U.S. homebuilders, saying the sector's summer rally has run ahead of reality as demand remains sluggish despite easing mortgage rates.

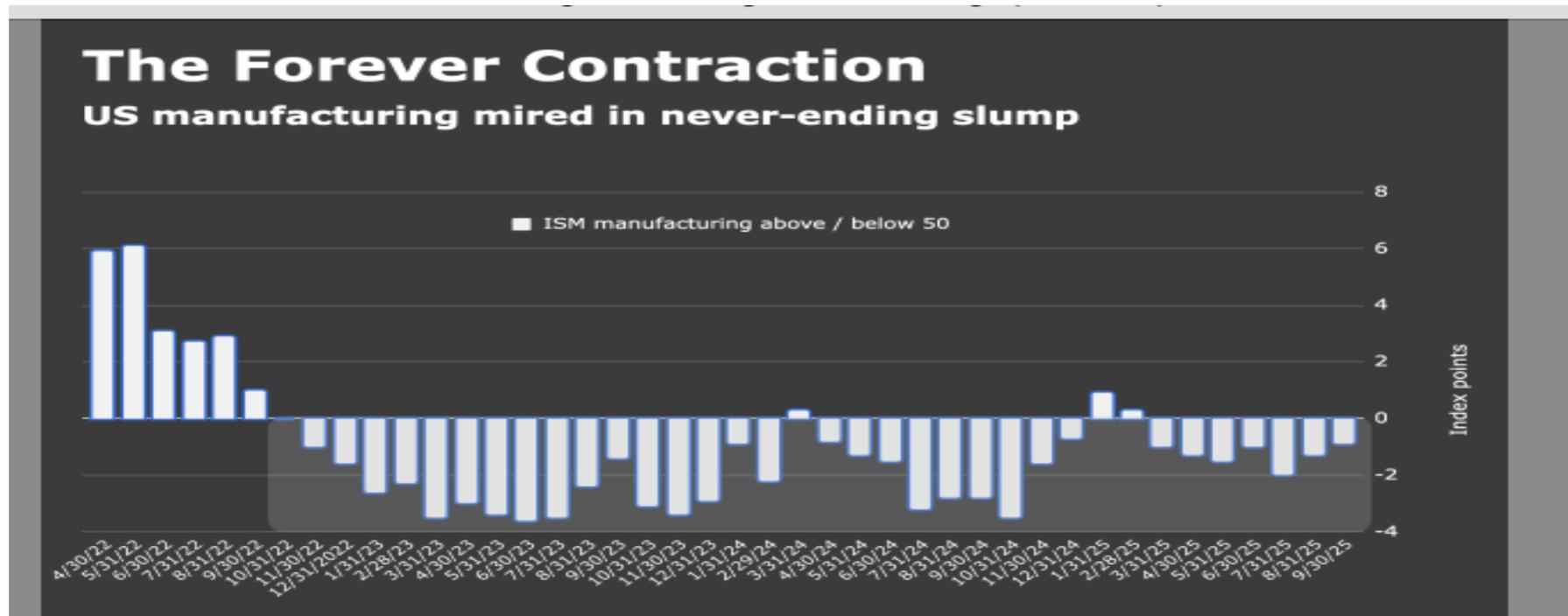
The firm downgraded D.R. Horton, KB Home, Meritage Homes, PulteGroup, Toll Brothers and Tri Pointe Homes to In-Line from Outperform, arguing that housing's main challenge is weak demand, not insufficient supply.

HOUSING WOES



MANUFACTURING REMAINS WEAK

At 49.1 The ISM index of manufacturing remains in contraction territory, now 3 years of a manufacturing contraction/ recession “We believe we are in a stagflation period where prices are up but orders are down due to tariff policy, and customers are not willing to pay the higher prices, so they are just not buying,” as one ISM respondent put it, adding that reducing overhead now entails “letting go of experienced workers.”



BUBBLE LIKE ENVIRONMENT?

Buy First, Ask Questions Later

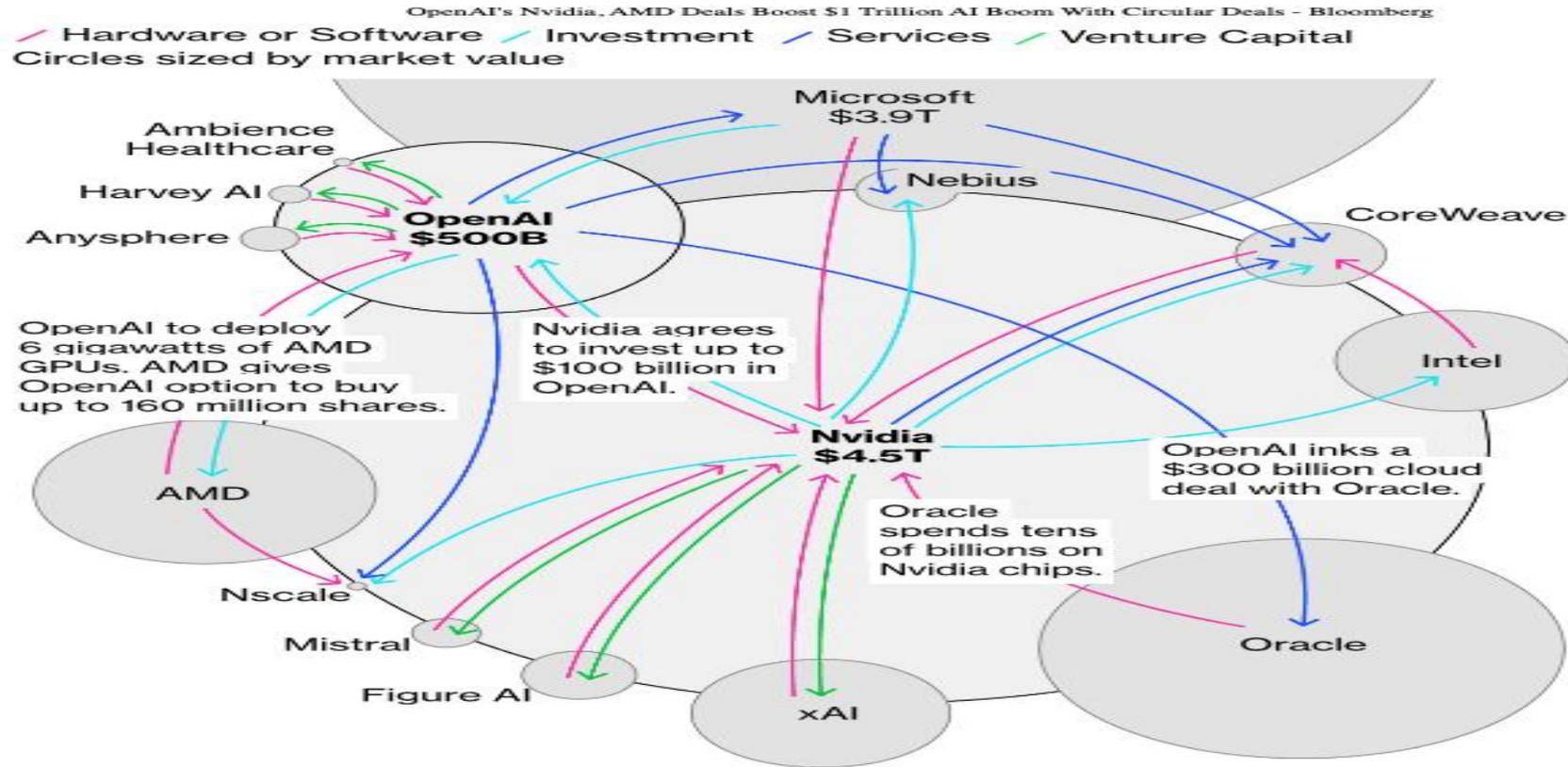
"It appears only OpenAI is striking deals for hundreds of billions of dollars on a monthly basis. Despite the popularity of ChatGPT, OpenAI is forecast to be cash flow negative for several years into the foreseeable future. There is not much risk in spending money you don't have."

Mira Murati's (Ex OpenAI CTO) \$2Bn funding round had this quote from an investor "It was the most absurd pitch meeting, So we're doing an AI company with the best AI people, but we can't answer any questions."

On Monday, we got more evidence that the volume on the AI hype machine's dialed up to a Spinal Tap-esque "11" when AMD soared almost 30% on news of a new strategic tie-up with Sam Altman.

As our story today revealed, Oracle earned a gross margin of just 14% on renting out servers powered by Nvidia chips in the three months ending with August. The company's overall gross margin is closer to 70%. Seeing as Oracle has projected that AI cloud rental revenue will balloon through 2030, likely becoming its major source of revenue, its overall margins have to fall.

EVERYBODY'S ALL IN



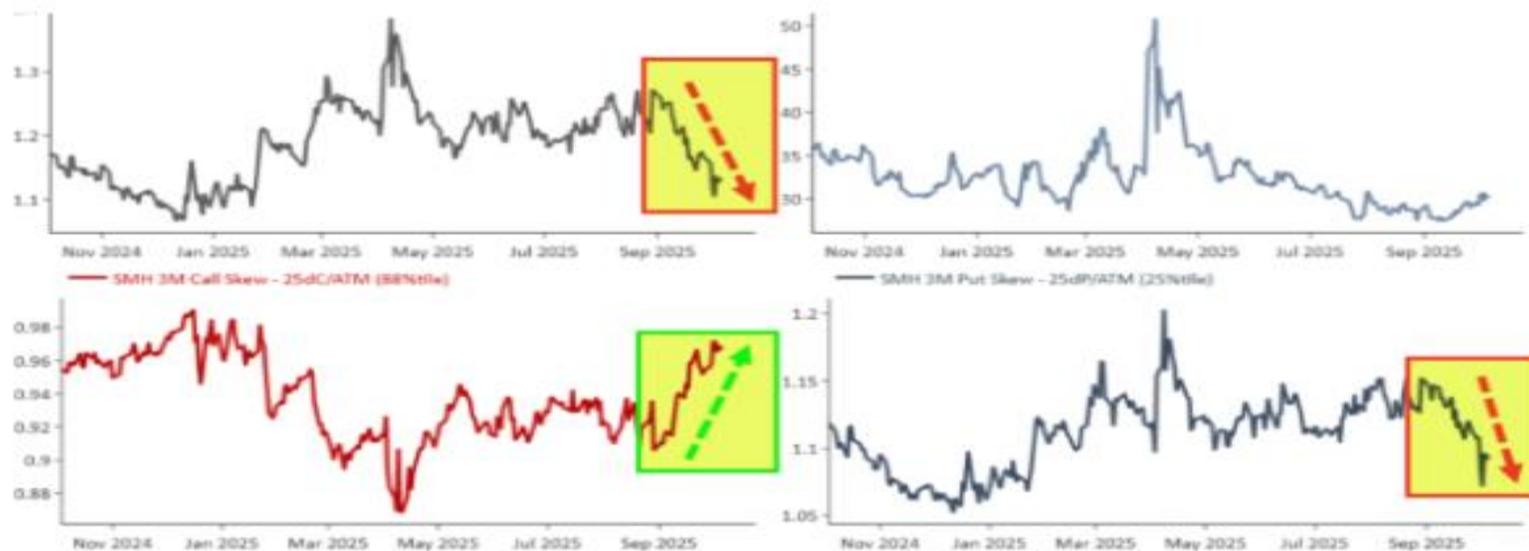
Source: Bloomberg News reporting

MORE ALGO TRADERS ARE HEDGING FOR UPSIDE????

- The top chart shows demand for downside protection, via options, which is falling off a cliff.
- The bottom shows demand for upside via out of the money calls – nobody wants to miss out!

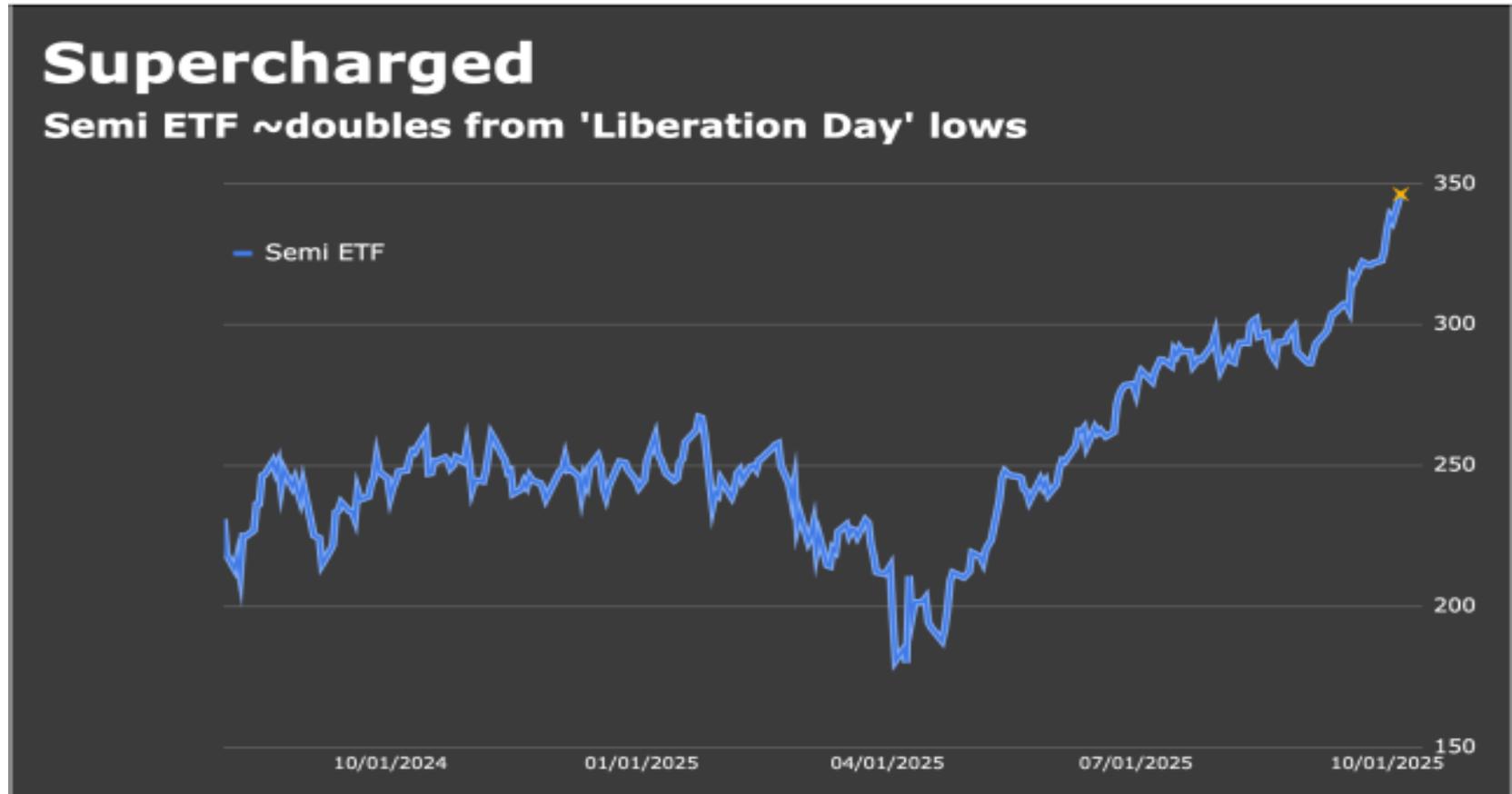
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Chip Chasin' – Heisenberg Report



Source: Nomura Vol

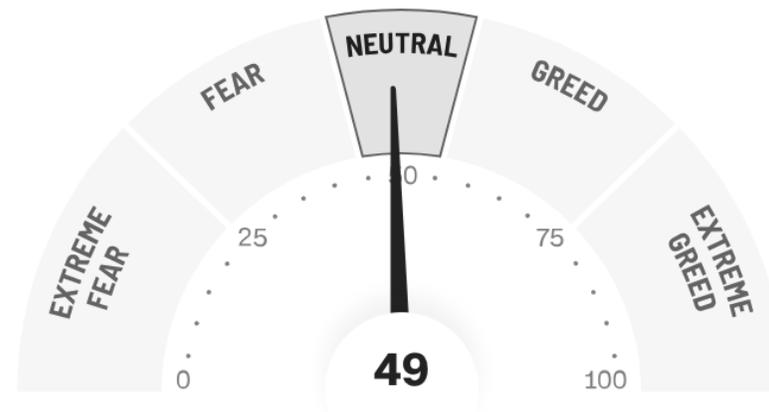
AN OVERCROWDED TRADE



STILL NEUTRAL?

Fear & Greed Index

What emotion is driving the market now?
[Learn more about the index](#)



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MARKET WEALTH IS PROPPING UP THE ECONOMY

A self-fulfilling prophecy from “passive” investors.

Look at the irony of this:

The AI hype cycle pushes up the names which comprise a very large share of index market cap, i.e, the M-7, thereby inflating the value of enormous passive AUM (Assets Under Management) tracking cap-weighted benchmarks. The higher the share of index market cap those names comprise, the more of every passive dollar gets allocated to those stocks which, when you throw in how prevalent they are creates a kind of perpetual motion machine.

This helps a smaller segment of the economy. Well-to-do households are massively overweight the AI ecosystem via that dynamic. That’s the ironic, paradoxical punchline: You end up hugely overweight a handful of names — i.e., sitting with very concentrated positions — simply by tracking the benchmark(s). This throws off a tremendous amount of income, propping up consumer spending and the economy by the higher income cohorts, while employment gets tougher and inflation stickier.

The problem is you can’t have a healthy economy without a healthy labor market.

At some point something has to give, and I don’t want to be stranded while everyone is running to the fire exit. I believe that rebalancing the portfolio a bit is a good idea, by de-risking some of the volatile names.

This week we gave a 10% sales call on Monday for several AI stocks, especially the smaller ones. We followed with 4 more sell calls ranging between 10-20% in data infrastructure stocks.

PORTFOLIO ANALYSIS

Heavy concentration of technology, and semiconductors, therefore our portfolio is more volatile.

We have a high Beta stock portfolio. The Beta measures the movement of a stock relative to the S&P 500, so if the S&P 500 drops 0.5% our portfolio could drop 1%

For example, Nvidia has a Beta of 2, Microsoft, Apple and Alphabet are closer to 1.25, while Credo and Nebius are closer to 3!

It becomes essential to hedge, take profits or have active stop losses

Portfolio Analysis by industry / Sector.

Strategy for each company