



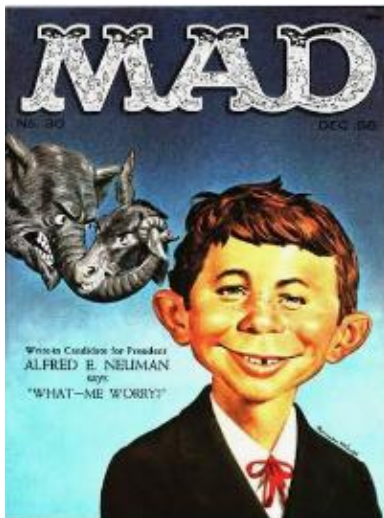
ELM RIDGE

"Who Gives A Crap"

September 30, 2026

"Graham and Dodd investors are people who place a very high value on having the last laugh. In exchange for the privilege, they have missed out on a lot of laughs in between."

– Michael Lewis, *The New New Thing*, 2000.



Once again, we watched the market treat even higher oil prices as a negative for energy stocks (how can professionals appear smart if they can't predict short-term pricing?) while evidently deciding that higher interest rates would hurt cyclicals, but not the much more financing-and discount-rate dependent AI complex. We're not that surprised. We've seen this phenomenon repeat at the beginning of many downturns. Our picks, which tend to draw in more vigilant investors, sell off first. But those on the other side of the ledger, supported by the Alfred E. Neuman "What, me worry?" crowd,¹ end up falling further if the threat does come to fruition.

iBasta!

*"Truth is like poetry. And most people f**king hate poetry."*

– *The Big Short*, 2015²

[Me]:

"Mar, I'm serious."

[Mar (My Mom)]:

"So are s**t, piss and corruption."

– Murray Avenue, circa 1977

"Capital spending bubbles almost always pop, but rarely when investors suspect they will. That has been the case for much of U.S. history, starting with the railroad buildout, through the dot-com boom, and beyond. While the AI capex explosion is almost certainly going to end badly, the chances of it ending badly now are low."

– "No End in Sight," *Barron's Cover Story*, 8/31/26

"Consider a turkey that is fed every day. Every single feeding will firm up the bird's belief that it is the general rule of life to be fed every day by friendly members of the human race...until the Wednesday before Thanksgiving."

– Nassim Taleb, *Fooled by Randomness*, 2005

¹ Yes, Alfred has graced these pages before, the most recently in December 2021, just before the S&P fell by some 25%.

² For some reason, all the YouTube clips that reference this scene show the dialog leading up to the on-screen title card with this quote.

I can hear my mom taking the wind out of my sails, speaking Spanish (Basta = enough) and then talking smack, while I expounded one more time why the world had it all wrong (on vegetables, clothing, religion, study habits, manners, etc). We have no reason to take issue with *Barron's* contention that the chances of the AI boom ending now are low. We understand having some, or even sizable, AI exposure. But from what I've seen of some of your retirement allocations, despite the mix of index funds, actively managed accounts, fixed income or private allocations, I'd bet nearly all of you are most certainly all-in.

But if *Barron's*' takeaway that "investors should keep dancing to the AI beat," resonates – and you are willing to ignore the potential annihilation of your retirement nest egg from the AI boom/bubble ending badly because that outcome seems remote at present – then you better dust off the section on expected value from that required statistics course you probably slept through. To be more offensive, I might suggest that the farmer in Taleb's parable is your financial advisor, and the turkey is, well ... no need to go there. Better yet, you can stay all-in and call me an out-of-touch a-hole one more time.

And on that score, we really have learned over the years that we're probably not going to convince people that we're advocating a reasonable course. We recognize that everyone else is telling you to stick with the program – i.e. what has worked of late will continue to do so long into the future ("Be the turkey"). Recent evidence will almost always support it. They promise you more riches and we annoy you with an alternative future where excesses tend to reverse – and where the stuff you've relegated to the scrap heap makes a comeback once again. But these letters do help us organize our thoughts – and provide some emotional therapy while we're at it. Indulge us.

Who Gives a Crap

"In other words, the AI bubble is based on the whims of maybe a few hundred companies spending money on two companies to justify five companies spending money with one company."
– **"Concentration Risk" Ed Zitron, 9/28/26³**

"It is difficult to get a man to understand something when his salary depends upon his not understanding it."
– **Upton Sinclair**

"It's not a lie if you believe it."
– **George Costanza, Seinfeld⁴**

"There you go again."
– **Ronald Reagan, 1980⁵**

Yes, we've been comparing the AI mania to that of the internet era since the beginning of 2025 and there's no reason to stop now. We'll start by acknowledging that, at this point, we have no beef with the technology. Chat and now Claude have done us a solid, saving oodles of time organizing and grabbing data on a host of research questions and for these letters as well. Whether they will reward or crush you for helping to finance the build out (as your

³ <https://www.wheresyoured.at/concentration-risk/>

⁴ <https://www.youtube.com/watch?v=t9r2nzovX6E>

⁵ <https://www.youtube.com/watch?v=Wi9y5-Vo61w>

private investments have been deployed alongside some vulnerable insurance companies⁶) or for betting on this AI-dependent market⁷ to keep powering your retirement accounts, might be a very different story.

While the parallels to the internet/telecom rise and fall of 1999-2013 (when the S&P finally recovered to its September 2000 peak) seem obvious, I asked Claude for a list of reasons why this time it different. It came up with the following (Claude in Blue).

Revenue and earnings are real. The companies at the center of AI spending — Nvidia, Microsoft, Google, Amazon, Meta — are among the most profitable businesses ever to exist. Nvidia is generating ~55% operating margins on real product sales. In 1999, the canonical dot-com company had no revenue, no path to profitability, and was valued on eyeballs. That description fits almost nothing at the core of the current AI trade.

But what happened if you loaded up on that era's version of today's Mag7: Lucent; Cisco; Nokia; Intel; Sun Microsystems and Dell? These are actually the cleanest "picks and shovels" precedent for what's happening with Nvidia, Broadcom, and the memory names today — and they didn't all break the same way, which is useful.

Huh? You would have been decimated. Claude thinks DELL succeeded in reinventing itself after going private in 2013, but neglects to mention that it did so some 50% below where it sold more than a decade earlier. Sun was taken out in 2009 a mere 96% below its September 2000 peak and Lucent fell by more than 99% before being absorbed by Alcatel in 2002. The proximate cause was vendor financing — Lucent extended billions in loans to small, unproven CLECs (competitive local exchange carriers) so they could buy Lucent gear, then lost both the loan and the sale when those customers folded. This is the single closest historical analog to today's circular AI deals (Nvidia investing in Coreweave/OpenAI who then buy Nvidia/cloud capacity) — revenue manufactured by financing your own customer base. Exactly.

Meanwhile, CSCO fell 90% (and is still lower today), Nokia 85% and Intel 80% (regaining its former high with the semi craze earlier this year). But don't you worry. That couldn't happen this time.

The underlying technology has already monetized. Cloud AI services, API revenue, Copilot subscriptions, search integration — these are generating incremental revenue now. The internet worked too, but figuring out how to make money from it took a decade. The monetization question with AI, while still open at the margin, is already partially answered. Yes, while OpenAI and Anthropic are reporting ever-growing revenue, reportedly driven by privately financed AI startups (today's CLECs⁸), they are both burning cash and far from profitable.

The capex is being spent by sophisticated, cash-rich incumbents. The hyperscalers are deploying their own free cash flow into GPU clusters. This is corporate capital allocation by companies with armies of finance professionals, not retail investors buying IPOs on margin. See Lucent above.

And who is helping them generate that free cash flow? Money-losing OpenAI and Anthropic, who have received a reported \$100b in hyperscaler investments while incurring enormous future commitments (\$1.3 trillion over the next few years). Claude notes that the two of them will account for 70%+ of the AI-driven revenue growth Microsoft, Google, and Amazon are reporting to justify their capex. The hyperscalers' AI growth story is now

⁶ See Ares, "The Hangover" Fall 2026 <https://www.ares.com/us/news-and-insights/in-the-gaps>.

⁷ I asked Claude how dependent is the US stock market on AI and got the following: "Goldman Sachs and Deutsche Bank put AI-exposed mega-caps at roughly 40-45% of S&P 500 market cap as of April 2026, while a broader value-chain methodology from BestBrokers found 62% of the index's market cap has some material AI exposure across 218 companies....From May 2024 to June 2026 the S&P 500 gained 142%; strip out AI-linked names and that falls to 16%."

⁸ For instance, last year, VentureBeat reported that AI coding tools Cursor (now owned by SpaceX) GitHub (MSFT, who invested \$5b into Anthropic) Copilot were driving roughly \$1.2 billion of the \$5 billion run-rate Anthropic had reached at the time, or close to a quarter of the total. Indeed, Cursor, which Claude noted had run rate revenue of \$4b before its recent acquisition by SpaceX, was reported to be on track to spend \$20b on AI this year, and Anthropic's leaked S-1, noted that two customers are each responsible for 12% of its revenue.

substantially dependent on two companies that are each burning billions and funding compute purchases with fresh equity raises rather than cash flow. You might reread Ed Zitron's quote in the section header.

We shouldn't shortchange their accountants and "armies of finance professionals," who allow them to label the money going out the door (close to \$200b so far) as an "investment," thus preventing it from hitting reported income or "free cash flow," while that same dough comes back as revenue on the hyperscalers' and Nvidia's (having disclosed investing more than \$540b in its customers) income statements. They must have brought back Samantha to wiggle her nose.⁹

No equivalent IPO frenzy. The dot-com era produced hundreds of companies going public with no revenue and immediate nine-figure market caps. The current AI startup ecosystem is largely staying private longer, and the public market action has been concentrated in a handful of large-cap names rather than dispersed across a long tail of speculative micro-caps.

AI is a little behind on this one. The exploding popularity of private investing (who needs the irritation of seeing mark-to-market volatility¹⁰), has served to bump private market valuations above public ones, as *Pitchbook*, the leading industry data provider, recently reported.¹¹ Why do you think we keep reading about pulled IPOs?¹²

Next, as we turned to the similarities with the internet/telecom bubble, Claude responded with the following.

Valuation multiples divorced from near-term fundamentals. The market is pricing in an enormous and sustained monetization wave that has not yet fully materialized. In 1999 the argument was always "the internet will transform everything" — which was true, but being right about the technology didn't save you from losing 80% if you paid 200x revenues. The same logic applies today to many AI-adjacent names.

The "this time is different" consensus is itself a warning sign. Every bubble in history has had a sophisticated intellectual framework explaining why traditional valuation metrics don't apply. The more elegant and persuasive the argument for ignoring price, the more dangerous it historically has been. The arguments in the previous answer are real — and were also available to smart people buying Cisco at \$80 in 2000.

Massive capex with uncertain ROI. Hyperscalers are collectively spending north of \$200 billion annually on AI infrastructure. The honest question — which Goldman Sachs raised explicitly in mid-2024 — is whether the use cases justify that spend. In the late 1990s, fiber optic capacity was massively overbuilt on the assumption that demand would catch up. Most of those companies went bankrupt. The demand did eventually catch up, but 10 years later and after wiping out the original investors entirely.

Narrative-driven retail participation. Options activity, meme-like enthusiasm around AI names, and retail flows into leveraged ETFs on Nvidia suggest the speculative fringe is present even if it's not the center of gravity the way it was in 1999.

The "killer app" problem isn't fully solved. Email and e-commerce were the killer apps that eventually justified the internet — but they took years to scale. AI's killer app at consumer scale remains unclear. Productivity gains are real but diffuse and hard to meter. Until there's a clean revenue model attached to transformative use, the ROI question stays open.

⁹ https://www.youtube.com/shorts/Sltfl_YxEIE

¹⁰ While the price that you and the sponsors can unload them is at least as volatile as the market you don't know what those prices are so you can pretend they don't change.

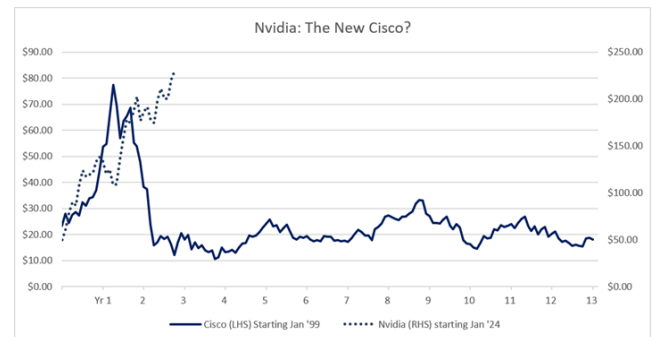
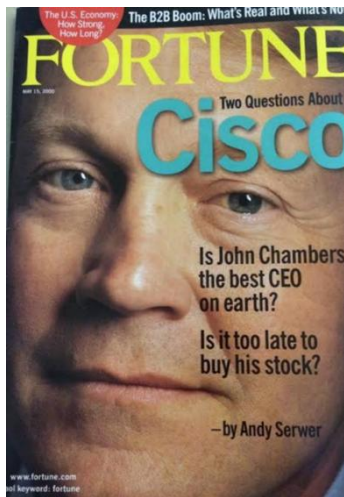
¹¹ Pitchbook, "IPOs Are Not Dead but Demoted: The structural shift in how US venture finds liquidity and raises capital," 8/28/26, notes "Public markets once amplified private market exuberance, but now they correct it. Public market multiples are weaker today, creating a pricing problem for IPO hopefuls. Valuation compression was a defining feature of 2025 IPOs. Most unicorns entered the public markets at substantial discounts to their peak private valuations, signaling a broad reset from pandemic-era pricing to current fundamentals."

¹² Since the spring, OpenAI, SB Energy, Oura, Holtec and Aggreko pulled or postponed their listings.

Moving beyond parallels, assuming that the technology does eventually become a necessary tool in the business world (we look forward to sitting around all day noshing Cheez Doodles and watching Beverly Hillbillies re-runs) we'd be remiss if we didn't list a few other threats: 1) the rise of cheaper Chinese open-source models that now account for at least half the token volume on routing platforms;¹³ 2) profit-killing competition among the established players and the threat of new entrants (ask AI about once-dominant Netscape, AOL, Nokia and Palm Pilot); 3) obstacles to all the proposed datacenters getting sited and powered up; and 4) the private financing spigot running dry¹⁴, as investors have a hard time committing new funds when they can't get their old ones back in the promised timeframe.¹⁵

I can hear it now. Reagan's "there you go again," as we're forced to listen to one more retread of the industry's (and your advisors') patented AI narratives that everyone is so quick to spit back.¹⁶

A picture is supposedly worth 1,000 words. Maybe these will help.



¹³ Empirical Research, "Chinese Models, Neoclouds and the Hyperscaler ROICs," 8/19/26.

¹⁴ Apollo, "2026 Midyear Credit Outlook" Notes that the "AI ecosystem could fundamentally support more than \$2 trillion of additional IG debt, particularly when chipmakers and other highly rated companies providing guarantees or contractual backstops are included. Public IG markets may be able to absorb less than \$1 trillion of that amount through 2030."

¹⁵ Pitchbook, "Private Equity's Zombie Problem," 8/17/26.

¹⁶ Understand that I've already heard your "analysis" since it has been literally lifted word for word from six different industry conference calls.

An Ode to the Commode



"We remain constructive on risk assets in the near term and are willing to remain fully invested into a blow-off rally crescendo but are vigilant for signs that the bull market has gone too far," Peta says. That seems to be a problem for another day."

– Doug Peta, Head of Essentials [yes, Essentials], BCA Research and *Barron's* August 2026¹⁷

"If you've been in the game 30 minutes and you don't know who the patsy is, you're the patsy."

– Warren Buffet

While this letter's title might reflect your view of the contents, I chose it for another reason that stares me in the face every morning. Along with many of you, we panicked when the stores ran out of toilet paper during COVID and discovered the "Who Gives A Crap" brand (it is eco-friendly) when searching online. Fearing a continued shortage, we ordered many times what we thought would be shipped. Indeed, we kept ourselves properly supplied until they caught up and delivered all that we had asked for. And I am still gazing at my inventory as I write this.

I've been following commodity markets for a long time and have seen this process play out over and over. There is no smooth transition from shortage to glut. It is instantaneous. Double- and triple-orders continue until suppliers build enough capacity to fulfill them, at which point the customers realize that their warehouses are full and stop buying completely. And I'd bet dollars to donuts we're going to see this process play out with Nvidia chips and a host of other semiconductors – and with compute and cloud commitments as well. As of now, all is in short supply, so enterprises have to be ordering way more than they need to feed their customers – who are probably doing the same thing to them. This will continue... until it doesn't.

Meanwhile we'll stick with less exposed (since AI is driving the construction industry and capex in general, almost every company is dependent on the buildout to some degree) and much cheaper stocks – where the Street bases its target prices on where they have historically (history here is usually limited to the last 2-5 years) traded, regardless of whether that makes any logical sense. As we've seen with AerCap (AER), ArcBest (ARCB) and Citigroup (C), these multiples can change rather dramatically over time, as just a few new investors can get the ball rolling. For instance, ArcelorMittal (MT) has doubled over the past year and would need to double again to trade at its US competitors' EV/EBITDA multiple on our 2027 estimates.

In any case, I still have a few more rolls of Who Gives a Crap before I need to use this letter in the manner that most of you would suggest.

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¹⁷ "Is the AI Capex Bubble About to Bust?", 8/8/26.

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