



Special Update: What the DeepSeek Moment Means for Investors

By Peter Madlem, CFA | Chief Investment Officer

AVALAN's Key Takeaway:

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.

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, Nvidia shares fell 16.9%, the Nasdaq 3.1%, and the S&P 500 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.

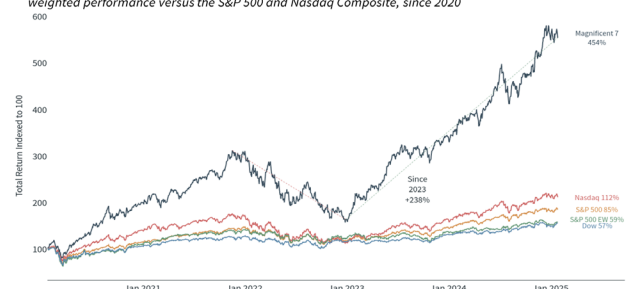
To help make sense of this development, there are three important facts that investors should remember.

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

Market and Economic Chartbook | January 28, 2025

Magnificent 7 Performance

Meta, Amazon, Apple, Alphabet, Nvidia, Microsoft, and Tesla. Simple equal-weighted performance versus the S&P 500 and Nasdaq Composite, since 2020



Latest data point is Jan 27, 2025

Sources: Clearmatics, Standard & Poor's, Nasdaq, LSEG

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.

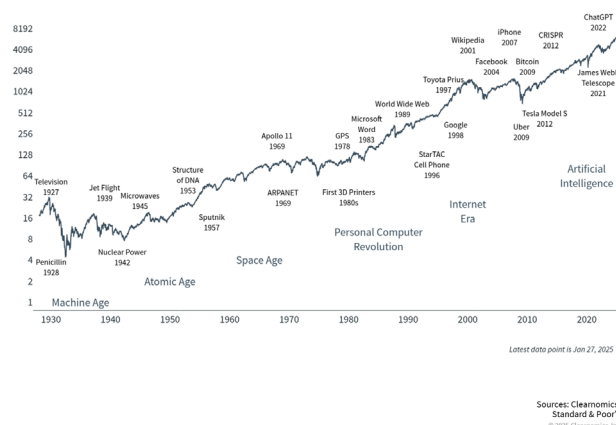
Since the S&P 500 is weighted by the size of companies, stocks like Nvidia can become overweighted in investment portfolios. Investors may find that they are less diversified than they would like, or that their portfolios are far more sensitive to the movements of just a few stocks.

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 trusted advisor.

2. Technological advances drive long-term growth

Market and Economic Chartbook | January 28, 2025

The Stock Market and Technological Innovation S&P 500 Index Since 1928 and Select Innovations, Log Scale



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.

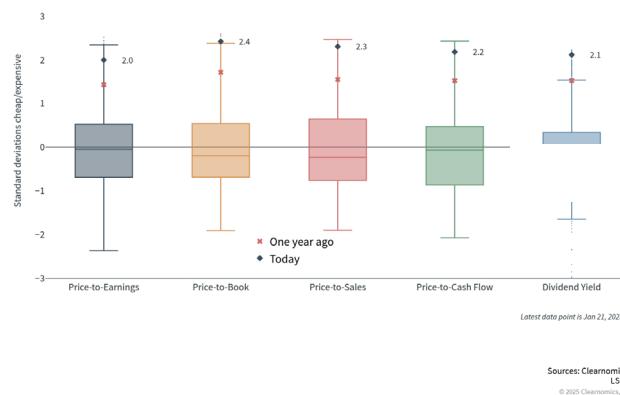
This is often described as the Jevons Paradox, which states that increased efficiency can result in greater use of a resource, not less. For example, the invention of semiconductors did not result in just more efficient computers, but the ability to use chips in all devices. This created consumer applications 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

Market and Economic Chartbook | January 28, 2025

Stock Market Valuations

S&P 500 Index valuations today, one year ago, and ranges since 2003



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.

Copyright (c) 2025. All rights reserved. The information contained herein has been obtained from sources believed to be reliable but is not necessarily complete and its accuracy cannot be guaranteed. No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness, or correctness of the information and opinions contained herein. The views and the other information provided are subject to change without notice. All reports posted on or via www.clearnomics.com or any affiliated websites, applications, or services are issued without regard to the specific investment objectives, financial situation, or particular needs of any specific recipient and are not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Past performance is not necessarily a guide to future results. Company fundamentals and earnings may be mentioned occasionally but should not be construed as a recommendation to buy, sell, or hold the company's stock. Predictions, forecasts, and estimates for any and all markets should not be construed as recommendations to buy, sell, or hold any security—including mutual funds, futures contracts, and exchange traded funds, or any similar instruments. The text, images, and other materials contained or displayed in this report are proprietary to Clearnomics, Inc. and constitute valuable intellectual property. All unauthorized reproduction or other use of material from Clearnomics, Inc. shall be deemed willful infringement(s) of this copyright and other proprietary and intellectual property rights, including but not limited to, rights of privacy. Clearnomics, Inc. expressly reserves all rights in connection with its intellectual property, including without limitation the right to block the transfer of its products and services and/or to track usage thereof, through electronic tracking technology, and all other lawful means, now known or hereafter devised. Clearnomics, Inc. reserves the right, without further notice, to pursue to the fullest extent allowed by the law any and all criminal and civil remedies for the violation of its rights.

Disclaimer: Advisory services are offered through Avalan, LLC, a Registered Investment Adviser.

