

Working Profit

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The Sorting Out

The build out of AI, as a revolutionary technology rhymes with and will continue to rhyme with similar revolutions of the past. There is a kind of play book on how innovation works. I experienced this firsthand in the Internet boom of 1995-2005.

I could argue that the advent of radio was even more consequential for the country. KDKA in Pittsburgh is usually credited with starting regular commercial broadcasting when it reported the Harding–Cox election results in November 1920. Within a few years there were hundreds of stations, and millions of American homes had a set. For the first time, a whole country could hear the same thing at the same moment: World Series games, the Dempsey–Tunney fights, presidential speeches, jazz from Chicago and New York... Radio pulled isolated farm families into national culture. It turned performers and politicians into household voices and helped spread a shared American popular culture. It also created a new business model.

Advertisers paid for programs, which led to sponsored shows and the national networks NBC (1926) and CBS (1927). The Radio Act of 1927 started federal regulation of the airwaves.

As far as I know, the usual estimate is that roughly 500 to 600 companies were building complete radio sets in the U.S. around 1925. Count the firms making parts and kits too (tubes, speakers, batteries, coils, cabinets) and the total ran well into the thousands.

As a result, radio also became one of the decade’s hottest investments. RCA stock was a centerpiece of the late-1920s bull market, and its rise and collapse made it a symbol of the speculation that ended in the 1929 crash.

We've had a lot of drama in AI over the past few months. But it is clear that the initial rush of capital, some of which is certainly going to be proved ill-advised, is over. We are now entering the sorting out phase. Investors will become pickier, a mix of successes and failures will pepper the media as it all works out.

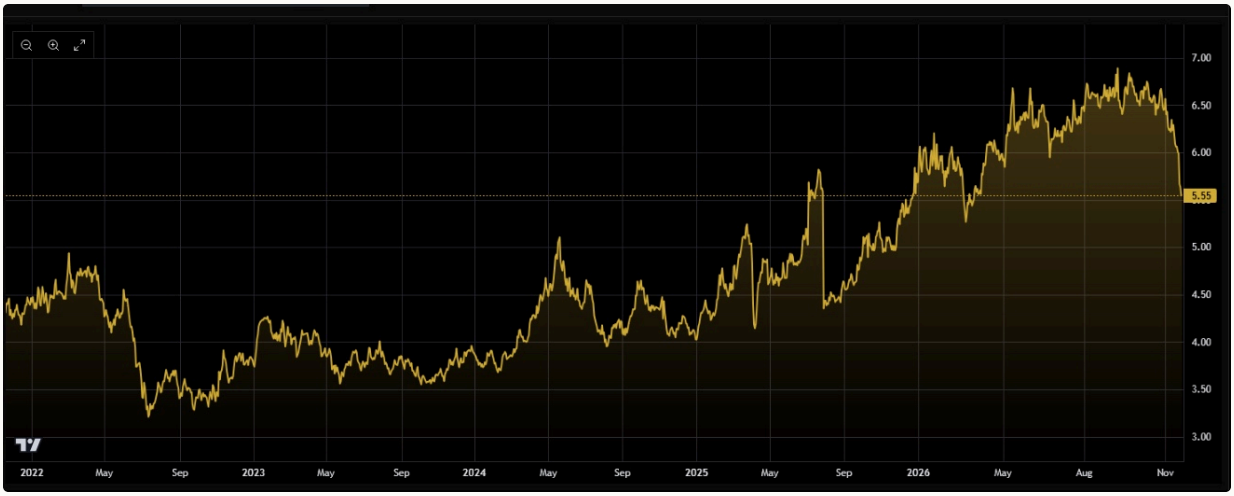
Roughly 500 companies were making automobiles in the early 1920's, by 1929, 80% of the output came from GM, Ford and Crysler.

The Sorting Out is upon us. As you stay abreast of it, the headlines might not be the real story. Underneath, innovation will winnow out the unnecessary. Now that the decks are pretty much clear, my guess is it will start shortly.

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The PhD in AI Economics?

Copper is something no one really follows anymore. Too bad, they should. The 5-year chart illustrates the futures price.



COPPER FUTURES, $ PER POUND

"Dr. Copper," or copper with "a PhD in economics," is an old trading-floor saying. It means the price of copper forecasts the direction of the global economy better than many professional economists do. Copper goes into nearly every part of industrial activity: electrical wiring, power

grids, plumbing, construction, autos, appliances and machinery. Very little of it is held as a store of value the way gold is, so demand for it comes almost entirely from people who are building, manufacturing and wiring things.

When copper rises steadily, it usually signals that factories, builders and utilities are buying more, which tends to come before stronger growth. When it falls hard, it often warns of slowing activity before that shows up in GDP reports, earnings or official forecasts.

The idea has a decent track record at big turning points. Copper collapsed in 2008 ahead of the worst of the financial crisis and bottomed early in the recovery. It also turned up sharply in 2020, well before the official data confirmed the rebound.

Copper had a remarkable run, from $4.40/pound to $7.20/pound on October 6. That top co-incided almost exactly with the top in the NASD 100. The run was easily explained…strong metals markets, inflationary background, but more directly DEMANDS FROM THE BUILD OUT OF AI DATA CENTERS. They are chock full of copper.

On a per-megawatt basis, AI data centers use considerably more copper than traditional data centers. On top of that comes copper for the grid upgrades and new power plants needed to supply them. This is a big part of why data centers now feature in the long-term copper demand story, alongside EVs and renewables. There is also a countertrend: copper interconnects are being challenged by co-packaged optics and fiber as speeds rise, so some of the chip-level copper may shift to fiber over time. The power and cooling uses, however, have no good substitute.

Copper has now rolled over, from $7.20 to $5.60. One can reasonably ask if it is a canary in the coal mine. The economy canary or the AI build out canary or both?

Both drove it higher as catalysts; both cannot be ignored once it rolls over.

If the demand for copper cools, that commodity input at the very beginning of the build-out cycle might be saying something worth listening to.

Our theme is now The Sorting Out for AI. This is one example of that. Is copper helping us sort out demand?

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