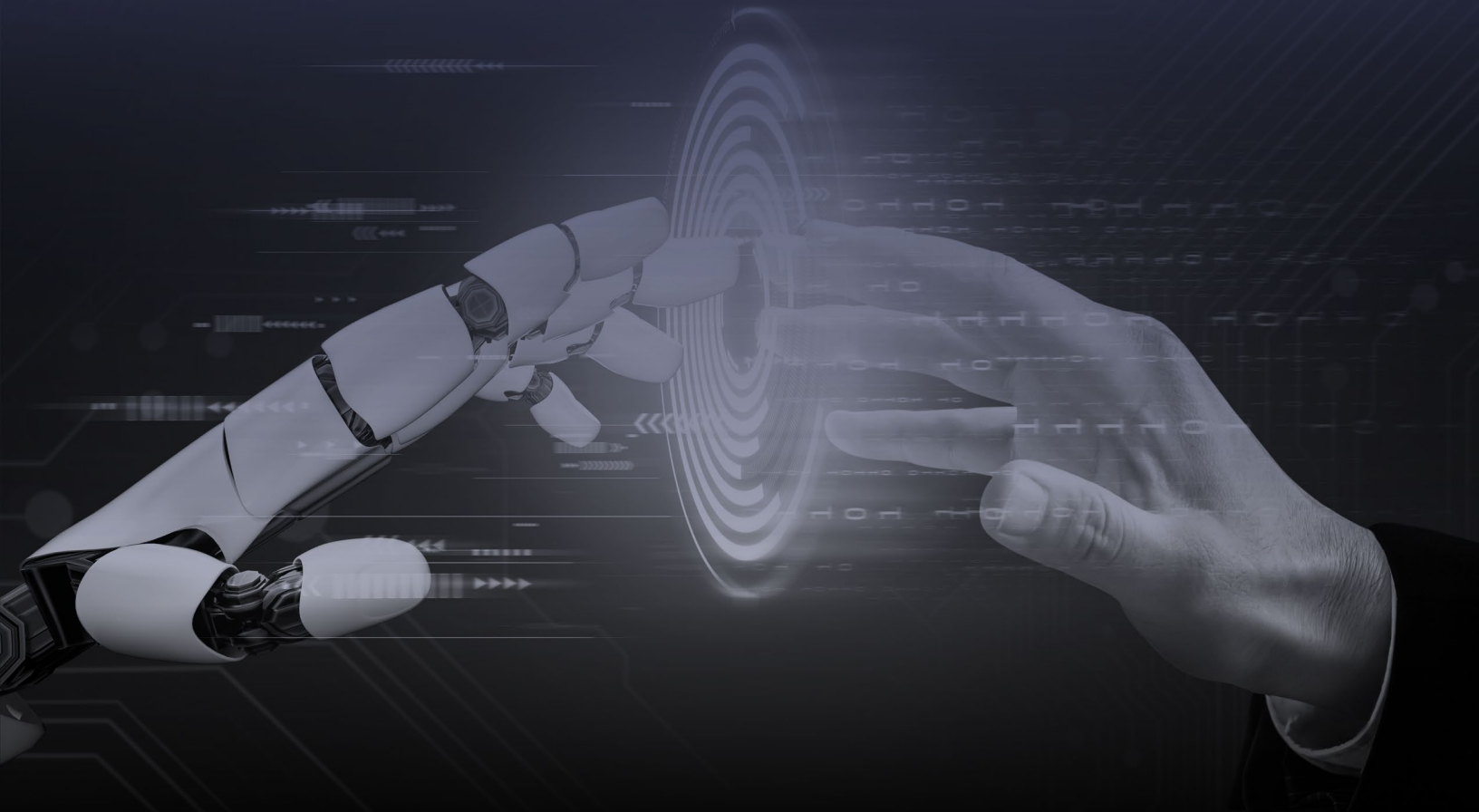


THE BIG SECRET ON WALL STREET

Artificial Illusion

✦ Finding Real Value among the Artificial Intelligence Hype



FROM THE DESK OF PORTER STANSBERRY

SPECIAL REPORT

Artificial Illusion

Finding Real Value Among the Artificial Intelligence Hype

George Foster had already chickened out twice.

But on December 5, 1802, after a long walk and several tankards of ale, he finally managed to push his wife and daughter into London's Paddington Canal, drowning them.

Justice came swiftly for George, a ne'er-do-well who refused to support his child and claimed that he "loathed" his wife. His family's bodies were dragged from the canal several days later. George was tried and convicted at the Old Bailey Court and sentenced to death by hanging the following month.

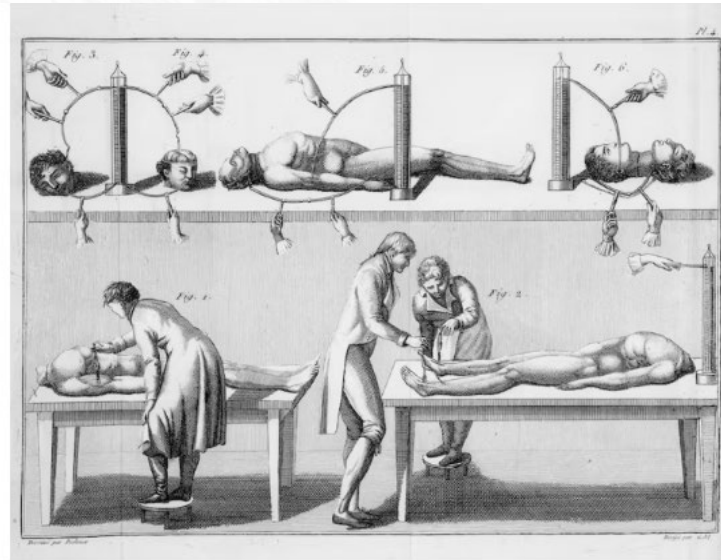
On January 18, "at three minutes after eight," the London papers reported, "the cap was pulled over his eyes, when, the stage falling from under him, he was launched into eternity."

However, en route to eternity, George Foster had one more stop to make.

Post-hanging, the corpses of criminals in 19th-century London were often shipped to the Royal College of Surgeons for experimentation. George's body was destined for science – but not just for a run-of-the-mill autopsy. Philosopher and visiting Italian scientist Giovanni Aldini had other posthumous plans for George.

Aldini's uncle, Luigi Galvani, had just a few years before pioneered the field of "animal electricity" – which believed that the newly discovered force of electricity powered the nerves and muscles of living creatures. Now, Aldini planned to take his uncle's research a step farther. To see if electricity was truly "the spark of life," he planned to see what happened if he sent powerful electric shocks through George's corpse.

Resurrection, perhaps?



Giovanni Aldini's experiments with a human corpse. Wellcome Collection, CC BY-SA

Once Aldini had George's cadaver on the operating table, he summoned an audience of eager medical students. Then to improve conductivity, he soaped the corpse's head with salt water and inserted sponges into the ears. Finally, Aldini added electrodes to each ear – and then switched on the current.

The condemned murderer didn't come back to life. But he did frighten one onlooker literally to death. As a reporter on the scene noted:

On the first application of the process to the face, the jaws of the deceased criminal began to quiver, and the adjoining muscles were horribly contorted, and one eye was actually opened. In the subsequent part of the process the right hand was raised and clenched, and the legs and thighs were set in motion. Mr. Pass, the beadle of the Surgeons' Company, who was officially present during this experiment, was so alarmed that he died of fright soon after his return home.

Aldini's experiments on cadavers didn't end with George. He went on to electrify other corpses – both human and animal – for enthralled audiences of medical students and thrill-seekers at a series of prestigious hospitals. None of the bodies came to life, but they invariably horrified and entertained the crowds with a series of jerky antics.

Aldini wasn't the only one making dead people dance. The fad of "galvanism" (named for Aldini's Uncle Galvani) swept Europe in the early 1800s – captivating Scottish scientist Andrew Ure, who was censured by the church for "summoning devils," and inspiring an English teenage girl named Mary, who wrote an 1818 horror story about lightning bolts re-animating a stitched-together corpse.

(Mary Shelley's book was *Frankenstein*. Perhaps you've heard of it.)

It's easy to see why the idea of electricity as "life force" captured the public imagination at the turn of the 19th century. The Enlightenment – with its ideals of reason and skepticism – had made it increasingly tempting to play God, or to re-make God in humans' own image. For the first time, creating life – creating *souls* – seemed within our grasp.

As Giovanni Aldini's research assistant, Charles Wilkinson, put it: Galvanism was the "*energising principle, which forms the line of distinction between matter and spirit, constituting in the great chain of the creation, the intervening link between corporeal substance and the essence of vitality.*"

Grand words... for what turned out to be a glorified parlor trick. After several decades of experiments that never progressed beyond some twitching and jerking, galvanism fell out of fashion in the mid-1800s – around the time that the Second Industrial Revolution began to find more practical uses for electricity, like running factories and lighting cities. (Not all was lost, though, as some of the technology used to "galvanize" corpses was eventually repurposed in modern-day defibrillators.)

Unfortunately for us mortals, no matter how many volts we pour into Frankenstein, we'll never be able to bring the big oaf to life. The most we can do is make him dance a little.

The vast power of electricity serves existing life. It doesn't create it.

But one thing that makes us deeply human is that we don't learn from our own horror stories. We keep making the same mistakes over and over again, even if it kills us (ever read *Pet Sematary*?). Today, we're still trying to harness the mysterious "essence of vitality"... this time, by programming computer networks with artificial intelligence ("AI").

And – despite initial experiments that seem promising – we're failing miserably.

Why Artificial "Intelligence" Isn't Real

In a 1947 lecture in London, British scientist and mathematician Alan Turing – the genius who is the father of the modern-day computer – gave what may have been the earliest public speech that mentions AI. In that talk, Turing explained: "what we want is a machine that can learn from experience," and discussed the possibility of creating a device that could "alter its own instructions."

In other words, he wanted to create a machine that had a soul.

Mad-scientist-style, Turing believed that advancements in computer neural networks would reveal insights into exactly how the human brain creates intelligence. These insights would then enable computer scientists to further

enhance the power of AI-based programs to eventually make computers more intelligent than human brains.

In a 1945 paper, Turing noted that AI-based computers would one day “play very good chess.” And half a century later, in 1997, an AI-based IBM computer, known as Deep Blue, would indeed beat world champion Garry Kasparov in a six-game chess match. The showdown made headlines around the world as the first time in history a computer had defeated a reigning world chess champion.

But here’s the rub... Deep Blue didn’t beat Kasparov because it was smarter... or “more human”. It beat him through sheer brute force. The supercomputer could analyze 200 million possible chess moves per second, and simulate potential outcomes for as many as 14 future moves.

Deep Blue’s chess prowess had less to do with any advancements in our understanding of how to program intelligence, and more to do with blunt processing power. It’s the difference between a small, intentional gesture from an intelligent human, and a corpse flailing its lifeless arm due to electric shock.

As MIT professor and author – and world renowned expert in linguistics (the key area that drives AI programming development) – Noam Chomsky commented in the wake of Deep Blue’s victory:

“Watching Deep Blue defeating Kasparov in chess was as interesting as a bulldozer winning the Olympics in weight-lifting.”

And therein lies the key limitation on today’s modern AI developments. Nearly a century after Turing theorized how computers could mimic the brain to create AI, scientists still don’t fully understand how biological neural networks create human intelligence. As a result, computer scientists remain unable to replicate the full spectrum of human thinking into AI algorithms. (We’ll likely keep right on trying, and failing, to play God, though.)

In a 2013 interview, Chomsky expanded on the critical limitation of AI development:

“What’s a program? A program is a theory; it’s a theory written in an arcane, complex notation designed to be executed by the machine. What about the program, you ask? The same questions you ask about any other theory: Does it give insight and understanding? These theories don’t. So what we’re asking here is: Can we design a theory of being smart? We’re eons away from doing that.”

Despite the pervasive acceptance of ChatGPT, Chomsky’s criticism of AI remains as true today as it was 10 years ago. Since the genesis of computer-based neural networks 50 years ago, the hype of AI’s future potential has routinely run well ahead of its reality, even among the industry’s most well-respected intellectuals.

The sober reality is that AI software will likely never replicate the full scope of general human intelligence – including the ability to ponder, rationalize, and generate novel insights about the world. In fact, the basic neural net programming concepts behind modern AI algorithms haven't changed much since the 1980s (source).

Despite this fundamental limitation, there's no denying that the recent advancement in AI capabilities could revolutionize many areas of the economy. Electricity, after all, did change the world. It just couldn't resurrect the dead.

The key developments enabling this technological breakthrough include two key factors:

1. The digitization of the economy has created the age of "big data." The massive amount of online information can now be fed into AI algorithms for countless applications.
2. Advancements in computer processing power have enabled an exponential increase in the data processing capabilities of AI algorithms.

The combination of big data and big processing speeds can now train the neural nets of AI algorithms in ways previously not possible.

As a tangible example, let's review the case of the AI-powered chatbot known as ChatGPT, which launched in November 2022 and officially kicked off today's AI frenzy less than one year ago.

The Most Successful App Launch of All Time

ChatGPT was created by AI research laboratory OpenAI, with backing from tech giant Microsoft. ChatGPT stands for Chat Generative Pre-trained Transformer. In plain English, this means that the chatbot AI algorithm comes pre-trained on a large set of language text, known as a "large language model" (LLM). ChatGPT uses its language training to respond to prompts from users. Over time, the algorithm refines its responses based on feedback, through its self-learning neural network programming.

The idea of a chatbot, and the LLMs that it operates on, are nothing new. What is new with ChatGPT is the sheer scope of training that went into the algorithm. That scope is comprised of the entire internet, literally. Starting in June 2020, OpenAI downloaded 575 gigabytes of text spanning every public web page on the web – and began feeding into the ChatGPT training algorithm.

Before the internet, this information existed in printed books, magazines, scientific journals, etc. The digitization of this information was a critical precursor that made ChatGPT's training possible. The next thing was processing speed.

The brains behind ChatGPT is a Microsoft-built supercomputer with 10,000 state-of-the-art Nvidia-made graphics processing units (more on Nvidia's GPUs later). The supercomputer's processing abilities rank it in the top five most powerful computers in the world. In computer science, the term "floating point operation" ("FLOP") refers to a single unit of operation. Training the ChatGPT algorithm required 3×10^{23} FLOPs. For perspective, that process on a typical desktop computer in 2023 would require around-the-clock operation for the next 10,000 years. OpenAI's supercomputer achieved this training in less than six months.

The sheer scale of ChatGPT's training allows it to generate useful answers to a broad spectrum of user prompts. But like IBM's Deep Blue, ChatGPT is an exercise in brute computing force, not intelligence. It doesn't have the logical reasoning faculties of the human brain, which means it often mistakes fact for fiction. This is a result of conflicting information presented on the internet. ChatGPT has also been known to "hallucinate" information – delivering data with no basis in fact.

As one example, ChatGPT incorrectly reported that a radio host in Georgia, Mark Walters, had been accused of stealing funds from a non-profit organization. This false claim has no supporting information anywhere on the internet – a classic example of AI-generated hallucination. Walters has sued OpenAI for the false information generated by ChatGPT.

Even OpenAI CEO Sam Altman admitted that ChatGPT "has serious weaknesses and sometimes makes very silly mistakes."

Despite these limitations, AI-powered software holds great promise for applying its computing force to narrow fields of clearly defined data-processing applications. A few examples include:

- The pharmaceutical industry employs AI to use biomolecular data to predict how drug molecules will interact with the human body.
- AI programs can scan reams of financial transactions to detect and prevent fraudulent transactions before they get processed.
- AI tools are revolutionizing agriculture by analyzing millions of data points on soil conditions and chemical applications to determine optimal growing conditions.

Personalized recommendations for goods and services are becoming a major driver of sales across many industries. AI software can tap into data on customer purchasing patterns to provide insights into how to sell consumers products they want.

For example, Amazon and Netflix use AI to recommend products or films to customers. While a human could help customers find what they're shopping for or help them pick out a movie, it would be unreasonable for Amazon or Netflix to have a person assist each individual customer. In both situations, matching shopping and viewing patterns with available options is a task well-suited for a supercomputing AI platform.

AI has optimized personalized recommendations, because it can perform the role of thousands of salespeople simultaneously, at a fraction of the cost. Not only is AI easy to scale, but AI doesn't need coffee breaks, enabling uninterrupted service for customers.

The technology will produce big winners for specialized use cases, particularly for companies that have the business models suited for AI's limited, but powerful potential.

Later, we'll dive deeper into a few of the businesses deploying AI-enabled software and data-processing applications.

But first, it's critical that investors restrain their enthusiasm. In the midst of the AI mania sweeping through financial markets, we will look at where this new technology is overhyped and where it is actually creating value for companies... and shareholders.

Separating the AI Hype from Reality

As with every revolutionary new technology, investors will need to navigate the minefield of speculative stocks, representing companies with questionable business models, masquerading as the next big AI winners.

A similar phenomenon occurred during the dot-com bubble beginning in the late 1990s, when any company adding ".com" to its name shot up in value by triple digits. More recently, it happened in 2018 with cannabis stocks, and in 2020 with cryptocurrencies. That history is once again repeating – this time with AI stocks.

These upstart AI businesses are all designed to do one thing: separate people from their hard-earned money. Investors should avoid these overhyped stocks with every last ounce of will power they have.

For every one big AI winner, there will be 10 equally big losers. How to recognize and avoid these traps? They often have several things in common:

1. Consistently unprofitable business models that don't work even on paper
2. Shifting corporate strategies and high staff turnover, particularly in the finance and accounting departments
3. Overly promotional management teams that make unrealistic claims to investors
4. Executives who use questionable accounting to inflate key business metrics
5. Insiders selling shares aggressively, while touting the potential of the company

Consider the case of **C3 AI (AI)**, a Bay Area company traded on the New York Stock Exchange with a market capitalization of around \$3 billion.

The Number One AI Stock to Avoid

Billionaire software developer Tom Siebel founded C3.ai in 2009. Siebel previously built and sold his software company Siebel Systems to Oracle for \$6 billion in 2006.

The company was originally named C3 Energy. The C stood for “Carbon” and 3 represented the number of ways the business helped other companies “measure, mitigate, and monetize” their carbon footprint.

Since then, the business has shifted its strategy, and its name, to reflect the hottest new investment fads. In 2016, C3 Energy pivoted to the booming “internet of things” theme, becoming C3.IOT. It pivoted again in 2019 to an AI company, changing this time to C3.ai.

Today, C3.ai provides AI-based enterprise software to other businesses. But despite the groundswell of enthusiasm and massive spending directed toward AI software in the last 12 months, the company’s revenues have remained flat over the same period. Worse, the company has lost money in every year that it has reported financial data, with the losses generally increasing over time:



Despite no profits – and escalating losses – to show for its core business, the company does have one key asset: its stock ticker. The company fortuitously secured the “AI” listing symbol when it filed its 2020 IPO. This helped make C3.ai a key recipient of the flood of investor money pouring into AI stocks so far this year.

Shares of AI rallied 233% from the start of 2023 through October 15. Further driving up the share price have been the aggressive claims from founder and

CEO Tom Siebel about the future of C3 – evidence of which has yet to show up in financial statements.

Despite only pivoting to C3.ai in 2019, Siebel claimed on a May 2023 conference call that the company has been “at the vanguard of the enterprise AI market for over a decade.”

In an [interview with Marketwatch](#) in March 2023, Siebel noted:

“AI is absolutely the hot topic today. Generally, I helped fuel it. AI is now basically at the top of every CEO’s agenda.”

Siebel also claims the C3.ai is “increasingly recognized as the gold standard in enterprise AI,” and has painted a vision of a \$600 billion market for the company’s products.

While many CEOs talk up their company’s business prospects, Siebel’s claims may have veered into misleading and potentially fraudulent territory. At least that’s a claim in a recent shareholder lawsuit against the company, which alleges that Siebel misled investors with his repeated claims about the company’s “12,000 person salesforce” through its partnership with energy company Baker Hughes. One Baker Hughes employee who trained members of his sales staff on C3.ai’s software confirmed to CNBC that only around 60 sales employees attended the training sessions.

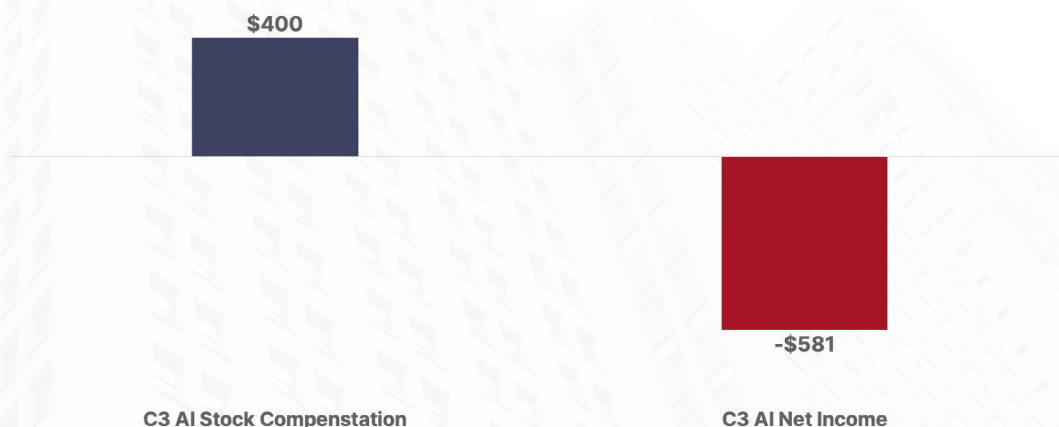
The company has also repeatedly changed the definition of how it counts customers. In the earnings report released in March 2022, the company changed its classification of “customers” to include multiple divisions within the same company – this accounting tactic allowed C3 AI to nearly double its customer count from 110 to 218 in the reported quarter.

If those questionable accounting practices weren’t enough, another glaring red flag is C3.ai’s revolving door of chief financial officers. Since the company’s founding in 2009, it has had nine different CFOs, or an average tenure of roughly 1.5 years. This rate of CFO turnover is more than three times greater than the average publicly traded company in America – and is a telltale sign of a company with questionable financial reporting.

Finally, despite the grandiose claims about the future of its business, Siebel and insiders have dumped nearly \$1 billion worth of stock since its 2020 IPO. C3 AI’s generous stock compensation rewards have gifted insiders with \$400 million in shares since its IPO. Over that same period, the company has generated losses of \$581 million:



C3 AI's Stock Compensation vs Earnings Since IPO (\$ Millions)



It's clear to us that C3.ai is being run for the benefit of insiders rather than shareholders. Given its poor business fundamentals, questionable accounting practices, and selling spree among insiders, this is our number-one AI stock to avoid.

Companies like C3.ai can ride the tide of an investment mania, and deliver fantastic short-term upside that lures investors in for a quick profit... but these stories rarely end well. Our recommendation: resist the siren call of these speculative AI businesses, regardless of how tempting the short-term gains in their share prices might appear.

But the truth is, the cohort of unprofitable, speculative companies are small fish in the larger AI feeding frenzy. Far more money will be lost in the well-established, highly profitable companies that command market capitalizations in the billions and trillions of dollars.

This includes companies like **Nvidia (NVDA)**, which is today's undisputed AI winner. NVDA sells the high-powered computing chips that have made recent AI advancements possible. It currently dominates the market for AI computing chips, and booming demand has fueled quarters of record earnings and revenues for the company. But despite the bright outlook for Nvidia's business, its soaring valuation almost ensures a poor outcome for today's investors.

Nvidia: Supplying the Workhorse of the AI Revolution

Virtually every company building AI software today needs one thing: Nvidia's computer chips known as graphic processing units (GPUs). GPUs contain a series

of parallel processors, allowing them to perform multiple computational tasks at the same time. These chips were originally developed for enabling two- and three-dimensional graphics in video games. However, the parallel processing functions of GPUs also work well for the neural net training of AI algorithms. These GPUs are the workhorses powering the AI revolution.

Nvidia, as the leading GPU maker for gaming applications, was perfectly positioned to parlay its technological edge to supply best-in-class GPUs to AI developers. Today, Nvidia owns 90% of the market for AI-focused GPU sales.

Nvidia's dominant market share is a function of its popular chips, like the A100 GPU. It commands premium pricing of \$10,000 per chip – far above AMD's lesser chips that fetches around \$1,000. Nvidia's next-generation GPU chip, the H100, commands an even higher price point of approximately \$30,000.

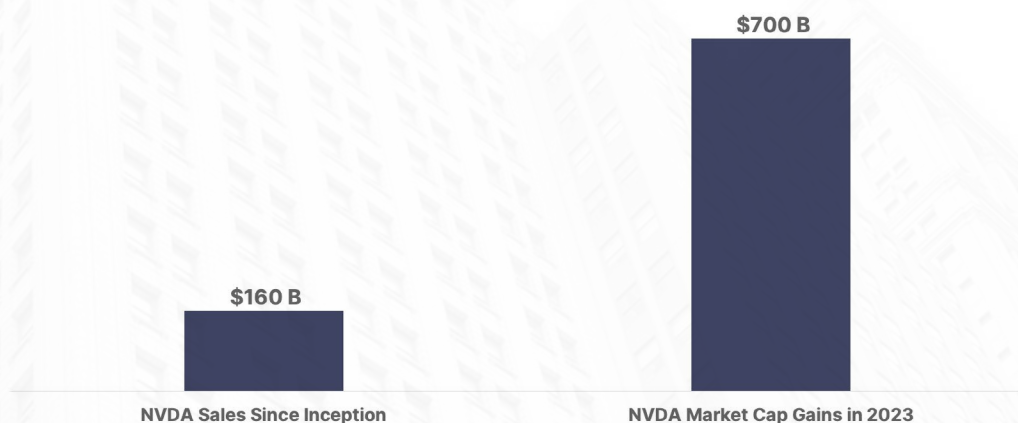
Buying them by the thousands, leading AI developers can't get enough of these pricey chips. This includes OpenAI, which uses 10,000 Nvidia GPUs to power the AI engine behind the ubiquitous ChatGPT (source). It also includes the world's leading mega-cap tech giants, like Google, Microsoft, and Amazon. These companies are all developing their own AI engines, and have inundated Nvidia with so many GPU orders that demand has outstripped supply.

With the world's largest tech companies competing in an AI arms race, Nvidia has experienced a massive uplift in its financial performance. In the company's Q1 earnings statement in May 2023, Nvidia reported revenue of \$7.2 billion, up 19%, and earnings of \$0.82 per share, up 44% from the prior quarter. Nvidia's guidance for Q2 sent the stock skyrocketing as Nvidia's CEO cited "surging demand" for its data center project. Nvidia's guidance for Q2 2023 was \$11 billion – more than 50% higher than analyst expectations of \$7.15 billion.

The stock shot up 25%, to gain \$184 billion in market value in a single day. Since then, the rally has continued, and the company has added \$700 billion in market value since the start of 2023. For a frame of reference, that valuation increase is more than Nvidia has generated in sales in its 30-year lifetime.



Nvidia Lifetime Sales vs. One Year Gain



There's no denying Nvidia's business is firing on all cylinders today. But here's where the hype bumps into the reality. In their enthusiasm to own the dominant chip supplier of the AI revolution, investors have priced the NVDA shares way beyond their actual value. At the peak of \$500 per share in August 2023, NVDA commanded a valuation of \$1.2 trillion. This reflects a 37.3x price-to-sales multiple, or 15.5x more expensive than the S&P 500 at roughly 2.4x sales.

By pricing Nvidia's shares at this staggeringly high valuation, investors have extrapolated a recent string of blockbuster earnings and sales growth into the indefinite future. This means Nvidia must execute as it is during this AI frenzy for decades to come in order for today's investors to earn a market-beating return.

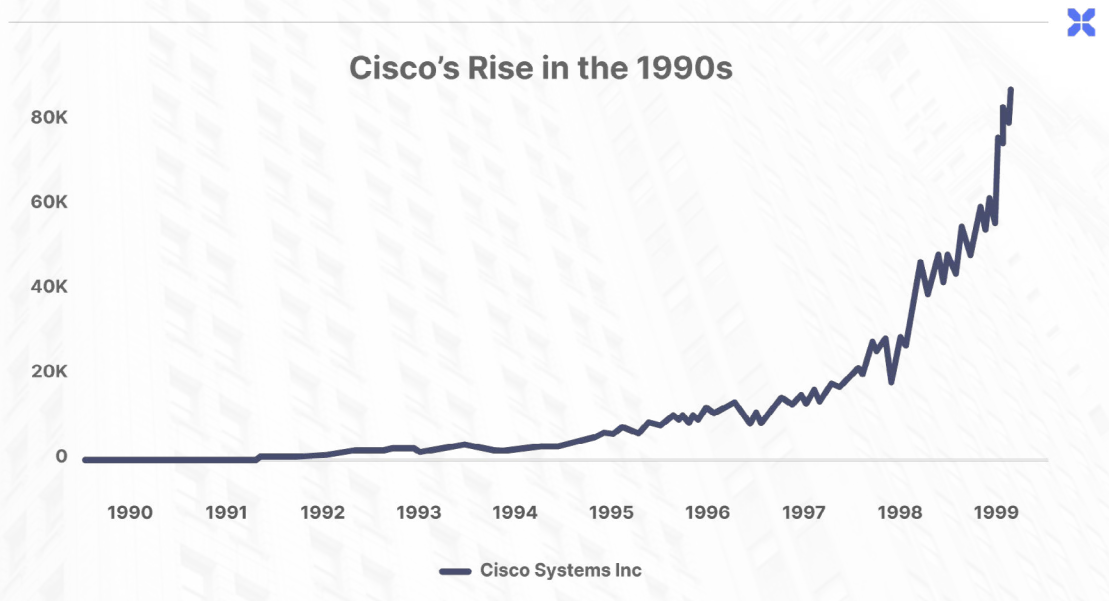
But history shows that sort of performance is elusive, even for the most dominant companies leading technological revolutions.

Here again, we can turn to the hard lessons investors learned from the dot-com episode.

Cisco: a Case Study for Nvidia's Future

During the internet craze of the late 1990s, **Cisco (CSCO)** was the Nvidia-equivalent of its time. Cisco was the dominant provider of the critical infrastructure – including networking switches and routers – that connected the masses to the internet. Its technological leadership made it second-to-none in networking hardware, with more than 60% market share in the late 1990s.

And the rapid growth of internet connectivity fueled an incredible expansion of revenues and earnings. From its February 1990 IPO through 1999, the company grew its revenues by nearly 200-fold, from \$70 million to \$12 billion. This fueled a meteoric rise in its share price, which nearly doubled every year during the 1990s tech boom.



Source: Bloomberg Finance L.P.

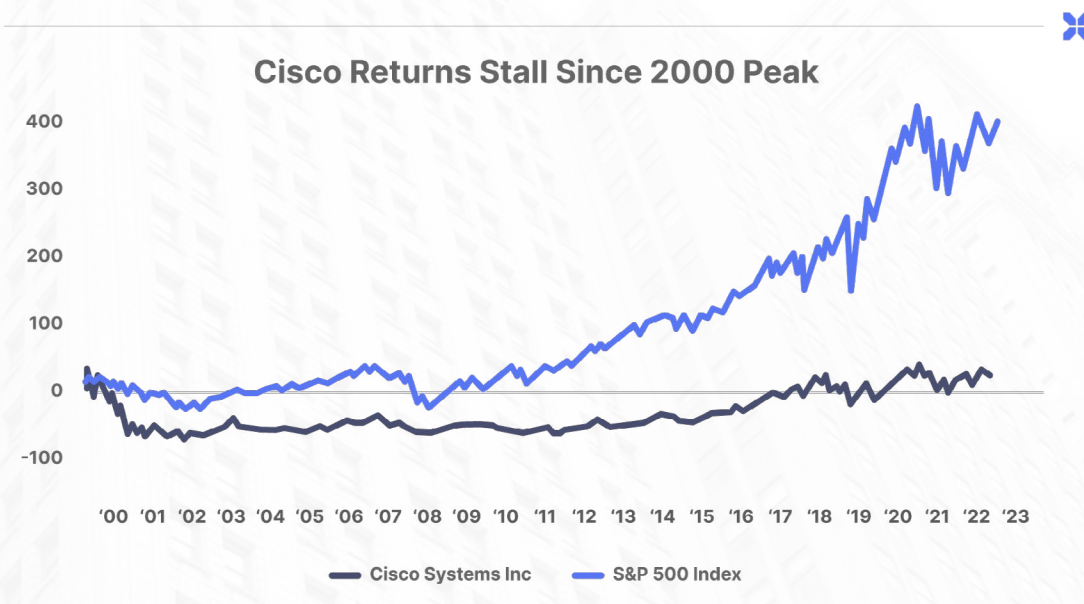
At the peak of the bubble in March 2000, CSCO traded for \$80 per share and commanded a \$569 billion valuation – making it the most valuable company in the world at the time. This valuation reflected a price-to-sales multiple of 38x.

Along the way, bulls scoffed at the naysayers and justified the price rise by Cisco's unbridled future growth potential. This sentiment was captured in a quote from a Wall Street analyst with investment firm Chase Hambrecht & Quist in the late 1990s:

"If you had picked a price point to sell at any time in the past 10 years, you would have been wrong... [Cisco] has such an impressive track record of growing ... that the financial community isn't thinking in terms of a multiple of what they're earning this year, but what they will be earning three or four years down the line."

The problem was that investors assumed Cisco's booming growth rate through the 1990s would continue going forward. As it turned out, Cisco's growth rate slowed as the need for internet networking equipment matured, and competitors chipped away at its market share. Cisco's revenue growth slipped from an average annual increase of 85% in the 1990s to just 5% since 2000.

This collapse in Cisco's growth trajectory crushed investor returns. When the dot-com bubble burst, CSCO shares plunged by 85%. It took two decades for shares to reclaim their former high. From the peak in March 2000 through year-end 2022, investors generated a mere 17% in total returns compared with 381% for the S&P 500.



Source: Bloomberg Finance L.P.

That was despite the fact that the company itself – if not the share price – continued to perform admirably. Cisco has dominated the market for internet networking equipment, and maintains its number-one market share position today. And it has grown its revenues four-fold since 2000. While that's a reasonably good result, it wasn't the world-beating performance investors priced into its share price in March 2000.

It's a lesson as old as financial markets themselves: valuation matters. When investors price a stock based on current, record-breaking performance, any little slow down will deliver a poor result. That's how even the best companies in the world... with leading competitive positions... and a multi-decade growth runway... can still generate devastating losses for investors.

Cisco wasn't alone. An entire cohort of dot-com stocks – 43 companies traded at 25x sales in early 2000 – suffered an 80% wipeout during the subsequent bust. And over the next two decades, even as this cohort grew their sales 10-fold, they returned an average total of just 16% – less than the rate of inflation over the period. That's a massive underperformance versus the S&P 500, which returned 284% during the same time frame.

Investors paying 37.3x sales to own Nvidia today will likely suffer a similar fate. Even as the AI revolution holds great promise for growth in GPU chip demand,

investors have already priced in this future of unbridled growth into Nvidia's current valuation. And history shows that betting on such performance rarely ends well.

The good news is that investors can capitalize on the AI revolution without paying exorbitant valuation multiples. There's an entire cohort of future AI winners that have been overlooked by Wall Street and the larger investment community.

These aren't speculative companies betting on a future AI breakthrough that has yet to materialize. They are companies with dominant competitive positions in their field, and highly profitable existing business models. And they are positioned to capitalize on existing AI technology to enhance their already-dominant, profitable core businesses.

These AI advancements won't show up overnight. Rather, they will become an incremental source of additional growth and margin expansion in the years to come. They're playing the AI long game – and the hot money chasing quick profits has ignored their long-term potential.

As a result, the stocks trade at reasonable valuations, including discounts of up to 50% versus the S&P 500. These companies not only offer the upside potential of the AI revolution, but they come with massively less risk than the headline-grabbing "AI winners" such as Nvidia.

The Three Silent AI Winners

PayPal (Nasdaq: PYPL) is one of the world's largest digital payment networks, originally founded as X.com by Elon Musk in 1998. Over its 25 years, it has added new services and improved existing ones to remain the industry leader. Today, using AI to supercharge current vendor offerings, the company will continue this practice of perpetual self-improvement.

PayPal plays a pivotal role in supporting small businesses and enterprises by offering a comprehensive suite of services, ranging from payment processing to financing options. PayPal's point-of-sale system has become an integral component for merchants, providing them valuable insights into sales patterns, cash flows, and business cycles. Leveraging this data, PayPal employs AI algorithms to offer tailored financial services such as business loans, working capital loans, and credit cards, leading to merchant loyalty and more sales for the merchant.

On the consumer side, PayPal tailors experiences through its original PayPal button and Venmo, a digital wallet. PayPal's expansion into buy-now-pay-later (BNPL) services further demonstrates its innovative approach, using AI for transaction-level underwriting, risk management, and fraud prevention. By combining BNPL with cashback offers, PayPal aims to further enhance consumer engagement and drive merchant sales, solidifying its position as a leader in the evolving landscape of digital payments. [Read the full report here.](#)

Ulta Beauty (Nasdaq: ULTA) was founded over 30 years ago and has evolved into the largest beauty retailer in the United States with 1,370 stores. Now it is using AI-powered technology to streamline and bolster its customer rewards program to generate even more sales from existing customers.

The company's success is rooted in its founders' playbook, emphasizing a superior product selection, with its stores offering 10,000 square feet dedicated solely to beauty products. Ulta's ability to offer a diverse range, including high-end luxury brands and mass-market products, sets it apart, as competitors struggle with limited shelf space.

Strategic moves and adept dealmaking have further solidified Ulta's position. And now, it is infusing this success with augmented reality and AI technologies that enable hyper-specific marketing campaigns and targeted promotion. The company's profitability, capital efficiency, and strategic partnerships position it for sustained success and potential transformation in the beauty industry. [Read the full report here.](#)

Deere & Company (NYSE: DE) has established itself as the global leader in agricultural equipment sales, capturing 18% market share worldwide and 60% in the U.S. for tractors and combines. And today, it is expanding its industry-leading position by using AI technology to greatly enhance the performance of its equipment and usher in fully autonomous agriculture.

Its historic brand power and customer loyalty have been key factors in its dominance, with 52% of Deere customers reported as brand loyal. The company's annual sales of \$61 billion, more than double its closest competitor, have provided the finances to invest heavily in research and development (R&D), enabling its evolution from a hardware manufacturer to a technology company.

And today, it's continuing these innovation practices by incorporating AI into its technology. Deere's pivot toward digitization and automation has transformed its business model, and position it as a compelling long-term investment. Normally, the market would command a premium for this kind of business. But trading at a discount to its historic valuation today, Deere offers substantial upside from its new AI technologies, with a wide margin of safety. [Read the full report here.](#)

These Stealth AI Plays Are Just the Beginning...

Now, keep in mind that the three companies above aren't *necessarily* "buy" recommendations.

They're incredible businesses that are worth watching, and absolutely worth purchasing... when the price is right.

The question of defining the right price to pay is the one with the greatest amount of variability – largely due to the different growth rates of each company – and

the greatest amount of room for “bending the rules.” When a world-class business lights up on our watchlist for becoming attractively valued, we then roll up our sleeves to study its recent operating history and competitive position. By studying a company’s valuation (price-to-earnings ratio), its growth, and its (we hope high) returns on invested capital, we have a comprehensive overview of it to make sound decision on if it’s time to buy.

At Porter & Co., we monitor a detailed portfolio of capital efficient businesses... the kind we ourselves want to buy, hold forever, and recommend to our families. And we send regular buy recommendations and updates to our paid-up subscribers in *The Big Secret on Wall Street*.

If you’d like to learn more about joining *The Big Secret*, we’re available by phone at 888-610-8895.