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Accounts managed by Hangar 4 Partners LLC finished the September quarter up about 3.2% yielding year-to-date net gains of just over 10%. The quarter was characterized by continual sector rotation, investor sentiment changing almost daily, and investor schizophrenia over the attractiveness of various sectors. The Nasdaq Composite, S&P 500, and Dow Jones Industrials were up about 2%, 5%, and 8%, respectively. Analyzing these performance numbers, one finds a stall in the technology market early in the period while an increase in the investment appeal of the broader market, sectors like the industrials and financials leading the way. Yet late in the quarter, technology came back into vogue. All this sector churning against a continuing bull market, despite a slowing economic backdrop, geopolitical tensions, and the anticipation of Fed rate cuts (which were implemented in September). Now that the national elections are front and center, and a wider war is impacting the Middle East, the potential exists for these factors to be disruptive. Yet “a bull market climbs a wall of worry”.

The reason for the stall in technology enthusiasm, the big concern for investors, is whether there is a return on the overwhelming AI infrastructure investments being made. Thus far the “pick and shovel” companies appear to be the only ones benefiting from the gold rush. More to the point, how will this AI phenomenon play out and what really are the use cases- where is the return?

It seems likely to us that the market will develop much the way the opportunity for search engines evolved with the introduction of the internet or even the video streaming companies. Remember there was a land grab race between a few companies early on- names like Lycos, Yahoo, Google, Excite, Alta Vista and, ultimately, Google won and became totally dominant. Similarly, content became the defining factor among the streamers with cost of content a defining factor and effective barrier to competition.

In the AI race, the stakes may be higher because the opportunity is bigger. Such cost of running this AI software is so staggeringly high, it will preclude any but those with the most resources from winning; as such would appear we can pick the likely leaders today, or at least those who are in contention. As to use cases, recognize that this software sifts through enormous amounts of data to find answers to queries and iteratively learns and improves with use. Some of the first applications might be in healthcare (records management), drug discovery (sorting through enormous numbers of prospective candidates), diagnosis (ask about all your personal test results), call center agents (no longer press 1 for...), network

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error analysis (my system went down, where and why), personal digital assistants (help me with all my daily tasks), to name a few. Said differently, anywhere massive amounts of data must be analyzed to find an answer, and usually, a better answer than previously possible.

And what of the business models that exploit the opportunity. In addition to direct licensing from leading software providers and subscription services, imagine a consumption-based models where a customer already with data in the cloud, goes to an AI enable provider, Microsoft or Amazon, for example, then pays for an added layer of capability to help in any application they deem necessary. Or at the edge of the network, some measure of intelligence embedded in PC's or cell phones allowing for local data to be analyzed. Here you will find a much better and wiser SIRI and personal agents, for example. Truly the future is upon us. For those who have seen the classic Sci-Fi film "2001 a Space Odyssey" think HAL the computer that controls everything aboard the space craft.

As this technology gets applied, it literally could touch most everything and therein lies the excitement (and the risk). It does seem to be a when, not an if. And the when could be sooner than you think. Moreover, the processing and cost requirements of AI may usher in new forms of computing, say Quantum Computing. At the same time, the insatiable appetite to power this revolution is already impacting ancillary industries, Energy/Utilities.

We are very bullish about the prospects but always mindful that powerful secular technology trends don't often play out as initially expected. Here, the "fear-of-missing-out" could lead to substantial over investment. Not only that, but geopolitical risks, as well as upcoming election risks, could alter the trajectory of the opportunity and the market. Nevertheless, we remain very optimistic and opportunistic and are excited about the investment prospects.

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