Investment Strategy
July 2026

The first two quarters of 2026 have been mirror opposites of each other. In the first quarter, the real-asset stocks we own performed superbly while the luster came off the technology sector. During the second quarter, the focus returned to the AI bubble which surged to new highs despite the ongoing energy disruptions caused by the Iran war. The renewed interest in technology stocks allowed several participants to raise large quantities of cash that is desperately needed to continue funding the enormous losses from their operations and ongoing capital investment. The epitome of this money grab was the initial public offering (IPO) of SpaceX at a valuation that defies belief and will be written about for many decades to come. The amount of money pouring into data center infrastructure is now larger than any new technology adoption outside of the railroad boom following the Civil War. Even if AI delivers on its promises, it is highly likely these investments will generate losses that will ripple through investment portfolios.

2026 Price Return		
	1Q	2Q
KEAT ETF	12.0%	-8.5%
S&P 500	-4.6%	14.9%
Nasdaq 100	-6.0%	27.5%

As illustrated in the chart above, our portfolios and the overall U.S. stock market have moved in opposite directions in 2026. **This is by intentional design.** The U.S. stock market is arguably trading for the highest valuation in financial history and roughly 50% of the index is now made up of AI-related companies. As we continue to stress, we want to be as far away from this as possible because history shows that any investment bubble of this magnitude will lead to VERY poor returns. To give perspective, it is currently estimated that AI investment in the U.S. is equal to roughly 2.0-2.5% of Gross Domestic Product (GDP) this year. In comparison, the late 1990's internet bubble consumed 1.0-1.2% of GDP, the electricity buildout peaked at 1.9% of GDP in 1929, while the railroad boom in the 1870's-1890's reached roughly 5% of GDP. Keep in mind, the figures for AI don't include large international investments, including a plan by Korean chipmakers to spend $500 billion on new memory plants.

Regardless of how big the bubble eventually becomes, we know it's the largest investment of capital since the epic railroad buildout following the Civil War. This is remarkable because you can imagine how revolutionary the railroads were to the economy

and how much it cost to lay thousands of miles of track[1] with very little heavy machinery. It's also easy to understand the astronomical benefits from the rail network as people transitioned from traveling by horse over days and weeks to moving large quantities of goods over vast distances in hours. Despite the immense wealth created by these investments, the railroad boom still resulted in two depression-levels busts (1873-1879 and 1893-1897) with unemployment peaking well above 10% in both periods.

While we don't anticipate a depression-sized event when the data center building slows[2], recent events will go down in financial history. The most glaring example was SpaceX selling shares to the public for the first time in early June. The company raised nearly $86 billion at a valuation of $1.77 TRILLION. In comparison, SpaceX generated roughly $18 billion in revenue over the past year while LOSING $5 billion[3]. That means SpaceX is incinerating massive amounts of money, but the stock was sold at a price-to-sales ratio of roughly 94 times. In comparison, investors who bought companies selling for 10 times sales in the telecom bubble were ridiculed following the bust in the early 2000's. The incredible valuation for SpaceX was decided by the company. Typically, investment bankers would help discover the market price. To sell this story to investors, Wall Street was forced to adopt extremely aggressive growth projections for the AI business, while the rocket operations were largely an afterthought in the valuation process. This was particularly shocking since most independent research puts the company's AI efforts well behind the competition. It would be an understatement to say this type of IPO only happens at the top of an epic bubble. This is the most egregious IPO in human history that was specifically devised to take advantage of market mechanics.

The more sinister detail missed outside of the financial industry is how the SpaceX IPO was designed to be unloaded on non-professional investors. As you will notice above, the company only sold roughly 5% of their outstanding shares in their IPO, a strangely small amount. At the same time, they made a deal with Nasdaq to include SpaceX in their influential Nasdaq100 index a mere 15 days after it began trading. This is completely unprecedented and broke many rules the index supposedly follows. This means the stock will be automatically purchased by retail investors that own the index at an insane valuation just so Nasdaq could win the listing of SpaceX on their exchange. Additionally, as shares owned by insiders become available to sell, the "share float[4]" will adjust higher. This will force the indexes to buy even more shares in the months ahead. In short, they have

[1] USA averaged roughly 6,000 miles of new track a year during this period
[2] This boom doesn't employ many people
[3] SpaceX has lost $41 billion over its 24 years of operations
[4] Share float is the total number of shares available to be readily bought and sold by the public. This figure is important for index creation because it dictates how much the index will buy.

purposely created a strategy to shove a ridiculously overvalued stock down the throat of unsuspecting index investors. This should be illegal and leaves bare the moral rot that has permeated into our financial markets.

The purpose of this frank description is for clients to understand how professionals see today's market. We are watching stocks trade at valuations that no expert can pretend is appropriate while it has become painfully clear that stocks are not being driven by fundamental information (earnings). We are also in an era that has become lawless in many ways. Even large and respected companies, including the leading AI stocks, are employing aggressive accounting practices to significantly boost reported earnings. Meanwhile, obvious frauds are not hard to find. In the oil markets, **blatant insider trading** prior to important Iran War announcements have left energy trading specialists licking their wounds. This has forced these trading houses to reduce activity during the most disorienting energy crisis in modern history. The last time similar conditions existed was during the 1920's before serious Wall Street regulations went into place following the great crash (early 1930's). We've been watering down these regulations since the late 1990's and the lack of any significant criminal charges following the banking crisis of 2007-2009 has clearly had unintended consequences. In addition, existing rules are being selectively applied to the well-connected and powerful.[5] As we continue to stress, you don't want to be anywhere near this thing when the party ends. The potential investment losses will be devastating.

As you can see, the markets are becoming more chaotic and irrational. This is to be somewhat expected at the end of a huge generational cycle that's accompanied by several large asset bubbles. Based on history, it's also not surprising the rule of law is weakening as this tends to happen during these periods[6]. Unfortunately, these reoccurring cycles every 80-100 years also tend to feature dysfunctional politics, financial crises, and rounds of inflation[7]. To protect ourselves from these risks, we want to own reasonably priced hard assets like oil companies, gold mines, and dominant grocery chains. Ironically, these are the types of companies that are cheap in today's market. We believe this is a gift that history will remember.

Sincerely,

Keating Investment Counselors, Inc.

[5] Rules still apply to the "little guy"
[6] *The Fourth Turning* by Neil Howe gives a good explanation of this phenomenon. He's available on a lot of different podcasts.
[7] This is the easiest way to reduce debt burdens

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