



Sometimes, the only winning move is not to play

Michael Burry is sounding the alarm on today's market. In his view, the stock market bubble is concentrated in just a few tech and AI giants, which alone are driving the majority of gains. He believes that sometimes the only winning move is... not to play.

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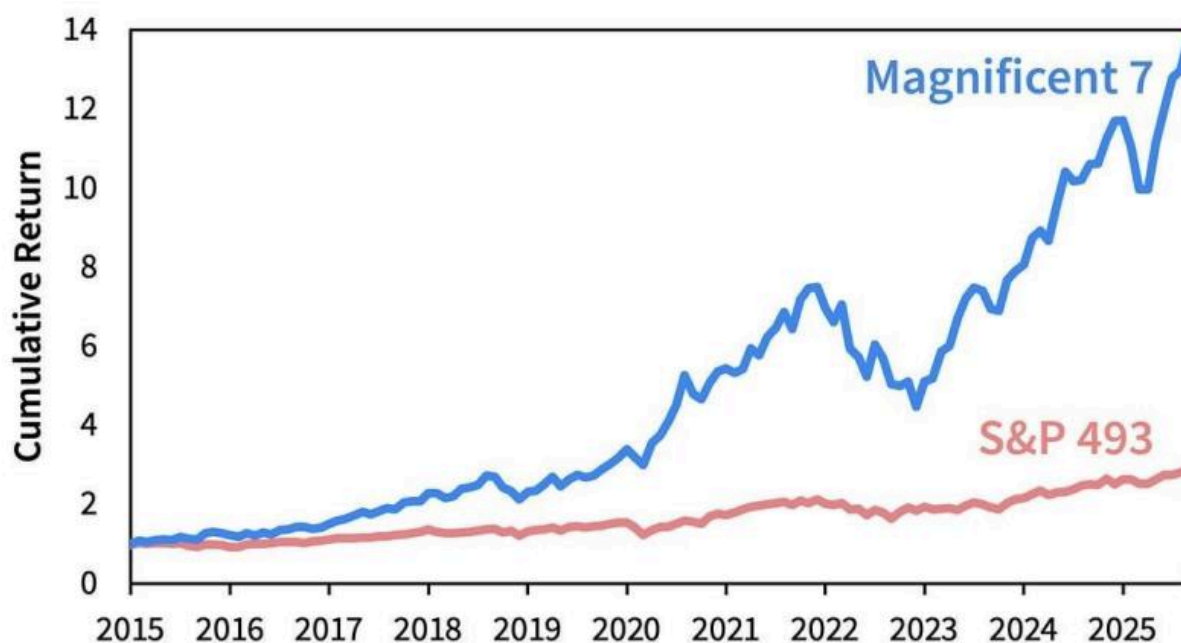
This was the conclusion of the assessment of legendary investor Michael Burry regarding the current market conditions. To be precise, his take as recently posted on X, in full, was “Sometimes, we see bubbles. Sometimes, there is something to do about it. Sometimes, the only winning move is not to play.” The insight behind these words is something that a lot of investors could use at this time. The

unrestrained, unjustifiable and unrealistic optimism and exuberance we're currently seeing in stock markets are setting the stage for a lot of pain in the not so distant future.

Michael Burry, best known for his prescient bet against the US housing market in the mid-2000s, that was the core theme of the blockbuster movie "the Big Short", certainly knows a thing or two about bubbles, so when he sounds the alarm on what he sees as excessive valuations and concentrated market risk it should not be easily dismissed.

The problem is that this is not the same as previous bubbles. Sure, we have seen extreme irrational exuberance before, and very recently too, with markets climbing while the underlying economy paints a very different picture. And, yes, we've seen near-comical optimism and cartoonish amounts of money flowing into ludicrous "assets": after all, it might seem like a distant fever dream now, but it wasn't that long ago that "investors" were spending hundreds of thousands or even millions on digital pictures (the NFT craze), or buying virtual real estate in the "Metaverse".

What is different this time is that the ongoing "bull market" is not a bull market at all. It is just a meteoric surge of a handful of stocks. Over the last few months, the top ten companies in the S&P 500, mostly mega-cap Big Tech names such as Nvidia, Apple, Microsoft, Alphabet, Amazon, Meta, and Tesla, have come to account for roughly 35-40% of the index's total market capitalization. This is the highest concentration level we've seen since the late 1960s and very far above historical averages.



The implications are clear: this much-celebrated bull run is just a mirage. When such a small cluster of companies drive most of the index's returns, the market ceases to reflect broad corporate health or growth expectations and instead becomes a leveraged bet on those few companies. A quick look at the performance of the small cap side of the market should suffice to drive this point home and to demonstrate the extreme discrepancy. The Russell 2000 has been showing alarming weakness and is actually now underperforming the Nasdaq by the largest margin in history. And this pattern is not new either. The Nifty Fifty of the early 1970s and the dot-com bubble of the late 1990s both showed similar narrowing breadth before the historic plunges that followed.



Despite his own advice, however, about “doing nothing”, Micheal Burry actually did something. He took short positions on Nvidia and Palantir, two of the companies with the most incredible price surges in a very long time. What he is effectively betting on is that at least some of the major structural hypotheses that underly the current AI craze (i.e. the real-world, practical value of AI platforms, chip and data center demand growth, unimpeded earnings expansion in tech, etc.) may disappoint or reverse. He doesn't even need the whole AI investment case to collapse, he just needs a couple of the extremely over-optimistic assumptions, hopes and projections to be proven wrong.

As luck (or just plain common sense) would have it, just a few days after sharing his views with the world, a very interesting story about OpenAI made international headlines. The company's CFO Sarah Friar proposed federal backing for investments in AI chips and data centers to mitigate financing risks from rapid technological changes, amid projections of \$14 billion annual spending. Nvidia's

CEO Jensen Huang also shared dire warnings in an interview the Financial Times that China will win the AI race due to government subsidized energy and fewer regulations burdening its AI industry. Just a few weeks back, all AI and tech leaders were very optimistic and confident about their outlook, yet now they appear to be asking for government support. They had already been rushing to secure an unprecedented number of policies favors and preferential treatment, from regulatory moratoriums to a “get out of jail free” card of intellectual property rights, but now it appears they are asking for a lot more. They are trying to secure a bail out in advance, that would allow them to privatize profits and socialize losses. This is certainly not what ironclad conviction and confidence looks like.

What this means for the broader market is clear. Since this tiny cluster of AI and tech companies are the only ones carrying the rest, if they falter - or even if they just stop surging - the masks will fall and the real condition of the corporate sector, and of the economy at large, will be revealed. This is at least partly the reason why precious metals have been exploding over the past months. Michael Burry is not alone in spotting the absurdities in the stock market and there is a lot of smart money that anticipates what comes next. The even smarter money sees that gold and silver are going to be the only sound and reliable refuge in the storm that lies ahead.

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