Wealth Enhancement®

Code, Concrete, Capital, & Choice

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Q: Allen, why title this Wealth Management Quarterly "Code, Concrete, Capital, & Choice"?

At this point, it is clear that artificial intelligence is dramatically reducing the cost of producing code. Tasks that once required large engineering teams can now be accomplished faster, cheaper, and at greater scale — often by a single developer using AI tools.

From an economic standpoint, this is a significant productivity shock. When the cost of producing something falls, utilization rises. Software is becoming more abundant, more flexible, and more widely accessible, but abundance is never neutral. In economic parlance, too much of something can lead to diminishing marginal utility.

A simple analogy might be water. Too much water, too quickly, can create floods. Managed well, however, water becomes civilization itself. Water unmanaged overwhelms systems; water channels irrigate them. Artificial intelligence is similar. It can either overwhelm existing structures or increase the productivity of everything it touches — depending on how it is financed and governed.

Q: What are some of the economic pressures artificial intelligence is creating?

The lower cost of producing code enables more models to be trained, more applications to be developed, and more intelligence to be deployed across the economy — further boosting productivity. Artificial intelligence, however, does not exist in the abstract. It runs through data centers — physical facilities measured not in lines of code, but in megawatts, cooling capacity, square footage, and capital budgets.

Software code used to be constrained by labor. Now it is constrained by concrete. Lower costs don't eliminate constraints — they relocate them.

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A modern hyperscale AI data center can require 100 to 300 megawatts of power — enough to supply a mid-sized city. The total cost to build and equip such a facility, including land, power infrastructure, cooling systems, networking, and advanced chips, can run into the billions of dollars. Unlike traditional software development, much of that capital must be committed upfront.

Code becomes cheaper. Concrete and capital become more important.

Infrastructure providers must scale aggressively to remain competitive. Margins compress and efficiency becomes paramount. Balance sheets matter again. The race is no longer just for better models, but for cheaper power, faster chips, and more disciplined capital allocation. Estimates suggest that in 2026 hyperscalers may spend between $600–700 billion on infrastructure — nearly 2% of U.S. GDP.

At the same time, lower software costs reduce barriers to entry elsewhere. Startups gain access to tools that once required significant budgets and engineering depth. Development cycles shorten. Competitive pressure increases. For many established software-as-a-service businesses — particularly those without strong network effects or embedded switching costs — differentiation becomes harder to defend.

So, the market is doing several things at once. It is pressuring companies that must finance ever-larger investments in chips and concrete. It is reassessing software businesses whose economic moats appear less durable in a world of abundant code. Less obviously, it is also encouraging the development of yet-to-be-recognized start-ups and producing efficiency gains across other industries.

These reactions are perfectly rational, as they are all expressions of the same economic logic.

Economics is the study of trade-offs under constraints. When one constraint loosens, others tighten. Lower software costs increase utilization, raise infrastructure demands, intensify competition, and force capital to choose where scale is justified — and where it is not.

Investors are not simply rotating between sectors. They are repricing scarcity itself.

Q: Has anything like this happened before?

Yes. We've seen similar dynamics during periods of deregulation.

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When the U.S. airline industry was deregulated in 1978, pricing and route controls were lifted. Fares fell. Utilization increased. Discount carriers emerged. Air travel expanded dramatically — but the transition was volatile.

Legacy carriers faced intense competition and margins compressed. Bankruptcies followed. Over time, however, scale reasserted itself. Large national networks formed around hub efficiencies and route optimization. The industry did not disappear — it reorganized.

A comparable pattern occurred in securities markets when fixed brokerage commissions were eliminated in the 1970s. Trading costs fell sharply. Discount brokers entered. Competition intensified. Incumbents saw pricing pressure. Yet ultimately, large integrated platforms and market makers regained dominance through scale, technology, and capital efficiency.

In both cases, lower costs increased utilization. They also increased competition. Both industries experienced prolonged volatility before settling into new equilibrium structures.

AI may follow a similar path. Intelligence is becoming cheaper and more widely distributed. That is likely to expand productivity, but expanded productivity does not guarantee stable margins for every participant.

Q: What does this mean for investors?

Code follows logic. Concrete follows physics. Capital follows incentives. Outcomes, however, diverge based on human judgment — how companies choose to allocate resources, how management teams choose to finance growth, and how investors choose to position portfolios during this period of reorganization will matter.

Investors who assume lower costs automatically translate into higher profits may be disappointed. Those who understand that lower costs often increase competition, and that competition reshapes industries before it rewards them, are better prepared. Lower costs can create opportunity — as they did for discount brokerages and airlines — but they also produced waves of failure before equilibrium returned.

We are likely entering a period where business formation accelerates, consolidation becomes more important, and business failures and restructurings increase at the same time. These are not signs of decay. They are signs of reorganization.

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As a result, investors should expect higher volatility. Volatility in this framework is not a sign that the AI revolution is failing. It is a sign that markets are negotiating how it will be financed.

Q: What does this mean for portfolio construction?

In every era of acceleration, investors are tempted to believe that this time is fundamentally different. History suggests otherwise.

This moment argues for discipline over excitement. Navigating this period will likely require active thinking — increasingly aided by AI analysis tools but guided by human judgment.

The likely volatility suggests favoring businesses with genuine advantages. It suggests paying attention to return on invested capital. It means understanding the interconnections and relative values between customers, firms, and suppliers. It suggests recognizing where capital intensity may overwhelm competitive positioning. It also suggests maintaining exposure to real assets and infrastructure where scarcity remains tangible.

Q: Any final thoughts?

Artificial intelligence is expanding the realm of what can be built, but it does not repeal physics. It does not eliminate capital discipline. And it does not remove the necessity of judgment.

Code may scale quickly. Concrete rarely does. Capital demands a return. And choice — the quiet exercise of judgment under uncertainty — remains the ultimate determinant of long-term outcomes.

The future will not be built by code alone. It will be financed by capital, constrained by physics, and shaped by choice.

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