The Disciplined Investor Podcast – Guest Interview Summary

Guest: Vitally Katsenelson
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Summary

Global Politics and Automation Insights

Andrew and Vitaliy discussed their experiences with Chinese negotiations, noting that the U.S. often treats friends and enemies equally, which could weaken their position. They agreed that global politics requires more thoughtful consideration than real estate negotiations. Vitaliy shared his recent visit to an Amazon distribution center in Denver, describing the efficient use of robots and the highly automated nature of the warehouse operations.

Warehouse Automation and Employment Trends

Andrew and Vitaliy discussed the future of automation in warehouses, particularly focusing on a distribution center where robots and algorithms handle most tasks, with only a small number of human workers needed. They explored the implications of this automation on employment, noting that while some jobs may be replaced, it could free up workers to pursue more fulfilling roles. The conversation touched on recent announcements from Walmart and Amazon regarding hiring freezes and layoffs, suggesting a broader trend of automation affecting both blue-collar and white-collar jobs.

AI's Impact on Future Workforce

Vitaliy and Andrew discussed the impact of automation and AI on the workforce, noting that while previous technological advancements led to job shifts, AI's speed and horizontal impact across sectors introduce new uncertainties. Andrew highlighted Amazon's adaptability as a model for future businesses, emphasizing how companies must evolve to leverage AI and other technologies to remain competitive. They also explored how AI tools like Microsoft Copilot are transforming industries, such as tourism, by providing real-time information and experiences, potentially eliminating certain traditional jobs.

AI's Infrastructure and Market Parallels

Vitaliy discussed parallels between the internet's development and AI, noting that while short-term impacts of AI may be less than expected, long-term effects could be more significant than anticipated. He compared the current AI infrastructure buildout to the dot-com era, highlighting how companies like Level 3 faced overcapacity issues despite high demand, and emphasized that excessive spending by multiple companies could lead to misallocation of capital. Vitaliy also referenced Oracle's recent deal with OpenAI, which he compared to Andrew Sorkin's 1929 book, suggesting that the deal could significantly impact Oracle's value by 2030.

Oracle's Debt-Financed OpenAI Acquisition

Vitaliy and Andrew discussed the financial implications of Oracle's potential acquisition of OpenAI, highlighting Oracle's significant debt and the need for substantial borrowing to fund the deal. They compared Larry Ellison's situation to that of William C. Durant, emphasizing that even successful entrepreneurs can make poor decisions. Andrew noted the recent decline in Oracle's stock price and expressed concerns about the company's ability to finance the acquisition. They concluded that OpenAI's success is crucial for the viability of these deals, and the current trend of debt-financed acquisitions could lead to an arms race among tech companies.

Market Valuations and Portfolio Strategy

Vitaliy and Andrew discussed market valuations, with Vitaliy noting that 60% of his portfolio is now outside the United States due to limited high-quality undervalued US companies. They agreed that current market valuations are among the highest in history, with Andrew pointing out that the CAPE ratio is higher than in 2020. They discussed how large companies like NVIDIA have significant influence on market movements, and Andrew shared that he recently sold two smaller module reactor companies after their strong performance. The conversation concluded with Vitaliy emphasizing the importance of careful decision-making during market euphoria, and Andrew mentioning Netflix's recent 10-for-one stock split announcement.