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Alpha Wealth Monthly Brief

“He who lives by
the crystal ball will
eat shattered glass”

- Ray Dalio

In this month’s edition of The Brief, we examine the current artificial intelligence boom through the lens of Howard Marks. An industry legend, Marks shares his insights on market psychology and whether the surge in AI investment represents a familiar pattern of irrational exuberance.

History Rhymes: Investor Psychology in the Age of AI

In his recent memo, "Is It a Bubble?", Howard Marks provides a grounding perspective on the artificial intelligence boom that is currently dominating market headlines. Known for his second-level thinking, Marks observes that while the technology itself may be revolutionary, the investor behavior surrounding it follows a pattern that is centuries old. Marks reminds us of the phrase attributed to Mark Twain, "history rhymes", noting that while the names of the technologies change, the progression of investor psychology from initial excitement to overwhelming FOMO remains remarkably consistent. Our goal is to navigate this environment by acknowledging the undeniable potential of AI while remaining disciplined enough to ensure wealth is not incinerated in the process of bringing that future to life.

Marks defines bubbles not as direct results of technological changes, but as the application of excessive optimism and irrational exuberance to those developments. Bubbles typically follow a predictable progression:

- **The Spark:** A seemingly revolutionary technology captures the public imagination.
- **The Surge:** Early participants enjoy massive gains, fueling "Fear of Missing Out" (FOMO) among those watching from the sidelines.
- **The Peak:** Prudence and risk aversion are replaced by the dream of getting rich on a technology that will change the world.

AlphaWealth Advisors, LLC

4435 Waterfront Drive
Glen Allen, VA 23060



Troy.flinn@alphawealthadvisors.com

Griffin.flinn@alphawealthadvisors.com

Chris.hamner@alphawealthadvisors.com

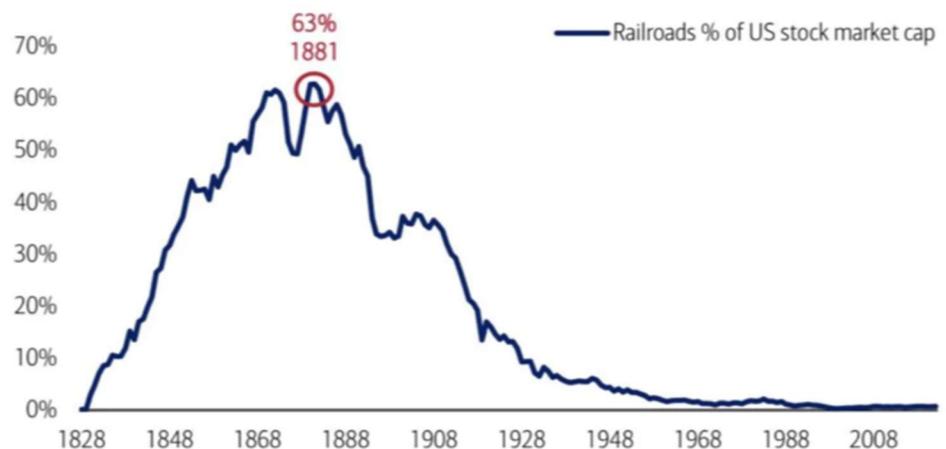


(804) 346-2615

Marks makes a vital distinction between two types of bubbles:

- 1. Mean Reversion Bubbles:** financial manias that are often based on a new financial miracle or a promise of returns without risk. Crucially, these bubbles lack any underlying technological development that moves humanity forward.
 - The 2008 Global Financial Crisis:** Marks points to the sub-prime residential mortgage-backed securities as a classic example. While there was a feeling money could be made by backing new buyers, there was no expectation that the underlying housing market was being revolutionized.
 - The Outcome:** Because there is no lasting progress, these bubbles merely rise and fall. When they pop, they destroy wealth without leaving behind anything of value to show for the capital lost.
- 2. Inflection Bubbles:** driven by genuine technological revolutions. After these bubbles pop, the world does not revert to its prior state. Instead, the massive speculation serves a purpose: it finances the enormous infrastructure required to bring a new era to life. The paradox of an inflection bubble is that it can be net beneficial for society while being disastrous for many individual investors.
 - The Railroads:** The bubble allowed for the massive, financially unwise investments needed to lay the actual tracks that moved the world into the industrial age.
 - The Internet:** Marks also cites the internet as a clear inflection bubble. During the dot-com boom, money-losing investments were the very things that built the digital infrastructure we rely on today.

Chart 2: Railroads = 63% of US stock market in 1881... most dominant innovation sector ever
Railroads as % of US stock market cap



Source: BofA Global Investment Strategy, Global Financial Data

The Risk Factors We Are Watching

Marks highlights several warning signs that suggest we have entered speculative territory:

- **Circular Deals:** Critics point to deals where a large tech firm invests billions into an AI startup, which then immediately sends those billions back to the parent company to pay for computing power or chips. This raises the question of whether reported revenues reflect genuine market demand or simply illusory growth designed to exaggerate progress.
- **Aggressive Use of Debt:** Perhaps most concerning is the shift from funding AI via cash flow to using heavy debt. Marks questions the prudence of companies issuing 30-year bonds to fund assets like AI chips and data centers. Given the rapid pace of technological change, there is a significant risk that these assets will become obsolete long before the debt is repaid.
- **The Minsky Moment:** Marks highlights the risk of a "Minsky moment", the point where credit expansion exhausts good projects and begins chasing bad ones. Signs of this are appearing as lenders sweeten terms to keep the build-out moving even as revenue momentum for many companies begins to lag.

The hysteria of the bubble causes decades of technological development to be compressed into just a few years. While some money goes toward life-changing investment in the winners, a vast amount is simply incinerated in the process of trial and error. AI is clearly an **inflection bubble**. It has the potential to reshape the global economy, but it is also triggering the same lottery-ticket thinking and speculative behavior seen in the 1860s and 1990s. As Marks notes, our goal is to see technological progress without being the ones throwing away money to help bring it about. We want to capture the value of the new world without having our capital destroyed in the process.

Fast Facts

The XXV Olympic Winter Games are officially here. While the Opening Ceremony is set for this Friday, preliminary competitions have already begun. Here are the fast facts you need to know about the Milan-Cortina 2026 Games:

- **Opening Ceremony:** Aired Friday, Feb 6 at 2:00 PM ET. A primetime encore follows at 8:00 PM ET.

- Most events take place in the morning and afternoon U.S. time (Milan is 6 hours ahead of EST). NBC will air the most popular events "live-to-tape" during their Primetime in Milan show.
- Skier Lindsey Vonn will compete at the Winter Games despite rupturing her ACL just last week.
- Ilia Malinin (Figure Skating): Known as the "Quad God," Malinin is the gold-medal favorite, coming off his 4th straight U.S. Championship title.
- For the first time since 2014, NHL players including stars like Connor McDavid and Sidney Crosby are back on Olympic ice.
- Ski Mountaineering (Skimo) is making its Olympic debut. Athletes must race uphill, hike on foot with skis on their backs, and then race downhill.

Contact Us

As always, feel free to reach out to us if you have any questions regarding your investments or financial plan or would like to schedule a meeting with our advisors.

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