Why the AI Boom Needs a Bust Before It Can Truly Begin

FLEXTION It's about *time.*

With AI stocks dominating headlines and valuations pushing into historic extremes, investors are asking the same question: Is the AI boom a bubble on the verge of bursting—or a once-in-a-generation opportunity? History suggests it's both.

> "Technology is a word that describes something that does not work yet."
>
> **– Douglas Adams**

His point reflects a familiar pattern: every major innovation—from railroads to the internet—moves through three stages: hype, disillusionment, and broad adoption.

Today's AI leaders are deep in the hype stage. Record investor participation, extraordinary growth expectations, and extreme index concentration signal we may be nearing the overheating phase of the cycle. But the coming correction is not a sign of failure. It is part of the natural progression toward real, lasting value creation.

After a bubble bursts, leadership almost always shifts to sectors that were previously overlooked. In 2003—while investors were still recovering from the telecom collapse—companies like Amazon, Google, Facebook, and Uber were quietly reshaping global industries. They were not the stars of the prior boom; they were the builders of the next one.

We're seeing similar dynamics today. The AI revolution is revealing years of underinvestment in electricity generation, transmission, mining, energy production, and materials. These industries form the backbone of the compute capacity that AI requires—and they stand to benefit meaningfully as capital spending accelerates.

At the same time, AI adoption is spreading across healthcare, education, financial services, and software. Emerging Markets (EM)—often more agile in adopting new technologies—may leapfrog developed economies in key areas. Improving performance across EM could be an early sign that new leadership is forming beneath the surface.

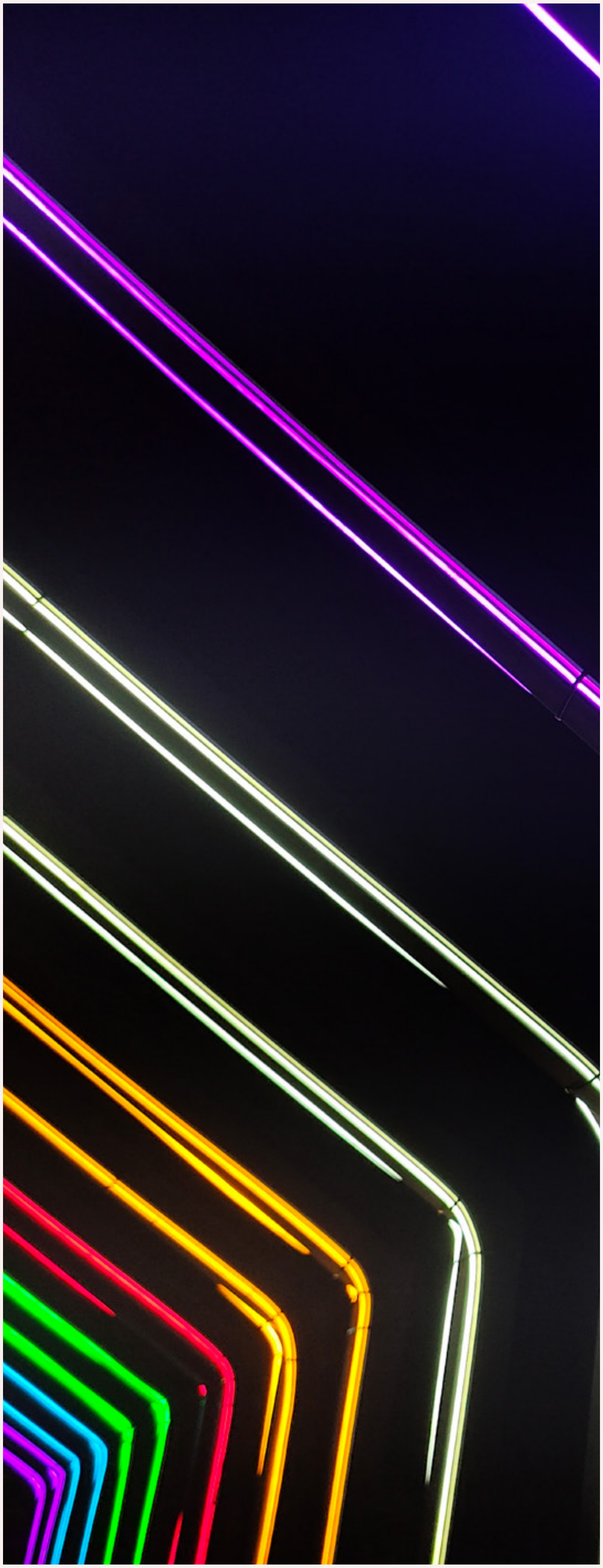
The risk for investors is reacting emotionally at exactly the wrong moment. Fear of a bubble can lead to missing the opportunities that emerge after the correction. As Howard Marks noted, the goal is not to predict, but to prepare. Understanding where we are in the cycle is more valuable than guessing the exact timing of the turning point.

The bottom line:

A potential AI correction shouldn't be feared—it should be expected.

It is the clearing event that paves the way for long-term winners and broad economic transformation.

Staying disciplined, open-minded, and focused on fundamentals—not headlines—will be essential as the market transitions from today's boom into tomorrow's opportunity.



FLEXTION It's about *time.*

About the Author

Paul Ehrlichman, Flextion's CEO and CIO, has over four decades of experience in portfolio management, leveraging fundamental and quantitative research to develop investment processes and strategies that enhance client returns and manage risks in volatile markets. He has led equity teams focused on global and international value strategies, serving a diverse client base that includes individuals, pension funds, and endowments at several leading global asset managers.

Flextion is a breakthrough platform for evaluating fund strategy returns, helping investors identify managers at a pivotal turning point—those poised to outperform after a period of underperformance. Designed by seasoned portfolio managers, Flextion bridges the gap between "clock time" and "market time," empowering investors to unlock long-term value and uncover hidden performance potential.

For more information contact:

Paul Ehrlichman, CEO and CIO ▸ **paul@flextion.ai**

Bevin Crodian, President and COO ▸ **bevin@flextion.ai**