SAN ANTONIO
WEALTH MANAGEMENT GROUP
of Wells Fargo Advisors

COMMENTARY

Scott Glover, CFA®
First Vice President - Investment Officer

Our Philosophy

We seek to add value over time through proper planning and rigorous internal research on investments for individual accounts as well as manager selection for advisory accounts, building conviction in investment opportunities through team debate to offer the appropriate reward for the risk we are asking our clients to accept.

Artificial Intelligence: Investing in the Face of a Revolution

Like a shot heard round the world, the launch of publicly accessible large language model artificial intelligence, or "AI", has almost taken sole possession of the market's spotlight. A spotlight that was previously owned by Jerome Powell and the U.S. Federal Reserve. Shortly after the introduction of publicly accessible artificial intelligence in the Winter of 2022, billions of requests were being made to put the much-hyped systems through their paces. AI platform providers were forced to implement traffic management tools including queuing systems and slowing down queries to cope with demand. These incidents and actions highlight the vast amounts of computing power required to sustain large language model artificial platforms. Technology experts broadly agree that the so-called generative artificial intelligence has the potential to change how we live and work. The current technology has clear flaws that must be addressed. That said investors, chief executives and engineers see the potential and appear to be "all in" on racing to implement it.

How big is the opportunity? There is no real way currently to quantify what the AI opportunity is for investors. Primarily because the market has not identified all the areas the technology can and should be applied. We can however look at the performance data the market has given us in 2023. It's hard to precisely attribute what market performance is from artificial intelligence and what was from other factors. What is certain is those sectors that contain the companies leading the efforts in artificial intelligence have outperformed the rest of the market significantly in 2023.

Economists are not only looking at the direct effects on the Technology sector. They are also evaluating the potential productivity improvements that AI could provide throughout the economy. Their conclusion if the anticipated productivity improvements come to fruition, fair value for those benefitting companies is higher, possibly much higher, than the market is giving credit for today.

Source: Halliburton 4Q2020 Investor Presentation

Investing in this new frontier is more complex than just picking some names that Wall Street analysts have deemed to be beneficiaries of AI. In the late 1990's investors saw a market power to new highs on the optimism of the internet. Wall Street lead the charge, recommending anything and everything that was internet and "dotcom" related. Market valuations inflated and capital flew to new entrants. When some of these companies failed to achieve investors' overhyped expectations, their stock prices plummeted. A key differentiator between the two periods is a lot of the stocks that are benefitting from AI already have durable businesses. This is a fragile time for many of these companies. Investors may expect extreme volatility as any negative news can potentially send new shareholders trying to cash in on the artificial intelligence excitement fleeing. Corporate management teams need to be extremely careful as well. They play a key role in setting market expectations. Bottom line, we believe investors need to do the required homework before blindly leaping into names with perceived AI benefits.

The number of industries already embracing artificial intelligence and incorporating it into their product lines is remarkable. Oilfield Services companies are using AI in reservoir evaluation, fracking, and directional drilling. Doctors are utilizing artificial intelligence to both identify the genetic profile of cancerous tumors as well as shorten the evaluation period for developing a treatment. Wimbledon is evaluating AI technology for potentially replacing line judges. At the same time Major League Baseball is looking to utilize AI in evaluating pitching styles in hopes of preventing injuries. Law firms are implementing AI to cut down case law research times as well as identifying areas of potential dispute in corporate transactions. An Agriculture start up is looking to marry AI and robotics to develop cultivation systems that both improve crop yields and at the same time reduce the need for herbicides.

Incorporating AI into businesses is not without its drawbacks. Technology officers are now being bombarded by their vendors, each offering to upgrade to the new AI offering. Co-pilot proliferation through software tools that contain AI enhancements are often confusing for employees both in interactions and understanding multiple different interfaces. There are also governance risks with the possibility of private data taking an unintended path into the public domain. Companies employing AI enhanced processes are going to have to both update procedures and perform enhanced due diligence work to safely realize AI's benefits.


Source: Aigen corporate website www.aigen.io

Producers of artificial intelligence products have substantial challenges to solve before the benefits reach their full potential. AI platforms are currently constrained by the amount of available computing power. Current state of the art processors are already hitting the limits of memory they can manage for the large language models that have been released. Networks are also going to have to increase their capacity to move data. Current network technology already can't keep up with the super computers that are running AI platforms. Further, AI platforms consume an immense amount of power. The power issue must be addressed if delivered AI solutions are to be cost effective.

The artificial intelligence platforms themselves are not the only near-term winners in this technical revolution. Market strategists believe Semiconductor companies (chip manufacturers) are the most direct beneficiary of advances in AI. As previously mentioned, AI requires massive computing power to execute these large and extremely complex algorithms. Semiconductor names are the ones to provide that power. There should also be a re-acceleration of Cloud Computing infrastructure names. "The Cloud" is where the bulk of this information processing will occur. Database providers that work across cloud infrastructure should benefit as well. Finally, Datacenter REITs which house server farms are expected to get an uplift. The physical presence of this ecosystem is getting much bigger. In a gold rush, sometimes it's better to sells picks and shovels versus speculating on the right piece of dirt.

Our approach to investing in artificial intelligence strives to be consistent with the investment approach we've always taken. We remain biased towards high quality. We are looking for companies with low leverage (low debt levels). We also seek out companies that generate significant free cash flow. We would like to see that free cash flow returned to shareholders in the form of dividends and share repurchases. At the same time, we want to identify those management teams that can earn better than peer average returns on the capital they invest in the business. Valuations matter. Chasing names that have run and currently have over inflated valuations only adds risk to client portfolios. For artificial intelligence specifically, we want to see demonstrated involvement and success in existing AI projects. Our investment process demands we do the requisite homework for any investment. We believe this is how we control what we can control to set ourselves up for the best chance of success.

Introducing: San Antonio Wealth Management Group of Wells Fargo Advisors

Talent, Depth, and Diversity of Experience all brought together for the benefit of our clients.

It is with great pleasure that we announce the formation of San Antonio Wealth Management Group of Wells Fargo Advisors. We are confident that this new group, which became effective July 1, 2023, will serve our combined client base well for many years to come.

We have always been dedicated to offering you the highest level of personal service, investment knowledge, and uncompromising commitment to integrity. The new team brings together over 200 years of combined investment experience. This collective experience results from a diverse set of career paths across the team. For our clients it means more coverage depth and a broader support to help navigate unique situations. It also means relationship continuity from having team members at varying stages in their careers. Nothing needs to change in the way that each client interacts with their advisor, your advisor is still your advisor. We just want each of our clients to know there is a bigger team standing behind their advisor.

San Antonio Wealth Management Group of Wells Fargo Advisors consists of the following individuals:

Blake Kopplin, Managing Director – Investments, has been in the financial services industry since 1992, 22 years as a financial advisor preceded by 9 years in commercial lending and credit analysis. Blake's time in banking is a great benefit to our clients who own their own businesses and the unique needs that come along with being an entrepreneur.

Randy Keeth, Managing Director – Investments, has 38 years of investment experience as a financial advisor. Randy uses his industry tenure to help him navigate ever changing business cycles.

Jim Rhodes, Senior Vice President – Investment Officer and PIM Portfolio Manager, has 30 years of investment experience both as a financial advisor and branch manager. Jim's industry tenure has given him keen insight into creating innovative and sound investment strategies.

Charles "Scott" Glover CFA©, First Vice President – Investment Officer and PIM Portfolio Manager, has been in the financial services industry since 1993 with over 20 years in institutional asset management in both research and portfolio management. Scott draws from his institutional background to execute a disciplined and rigorous investment process as well solve complex problems for our clients.

William A. "Bill" Lee, Financial Advisor, started in the financial services industry in 1978 and has worked as both an advisor and manager. Bill draws on what he's learned from his time in the industry manage markets that some investors may have never seen themselves.

Joe DiRago, Financial Advisor, has over 39 years of investment experience as a financial advisor. Prior to Joe becoming a financial advisor, he served as a pilot in the United States Air Force. Joe's pilot training and experience aids him in assessing situations and developing plans to help clients reach their goals

Penny DiRago, Financial Consultant, has over 37 years of investment experience both as a financial advisor and consultant. Penny's passion for cultivating relationships helps her to create a real "team" experience for her clients.

Dinah Allerkamp, Senior Client Associate, has been in the financial industry for over 20 years. Dinah's proactive approach and attention to detail help to make sure that our client's have an excellent overall experience.

Jerrod Fraser, Senior Registered Client Associate, has over 16 years of experience in the financial services industry, spending time in investments, banking, operations, and compliance. Jerrod draws on his career path knowledge to navigate day to day challenges that our clients face.

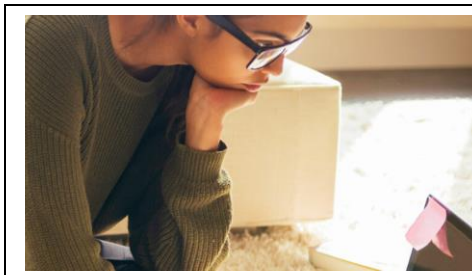
All of us in San Antonio Wealth Management Group of Wells Fargo Advisors appreciate your continued loyalty and trust. We look forward to maintaining and growing our relationships with our clients for many years to come.

Why young savers could benefit from a long term mindset

Four key considerations could help young adults create a mindset to succeed with saving and investing for the future..

Michelle Wan, Wells Fargo Investment Institute Investment Solutions analyst, has met many younger clients who have had reservations about investing.

"Young investors may find themselves delaying investing for retirement because it seems so far in the future.



Alternatively, they may enjoy trading volatile investment instruments in search of rapid profits," she says. "They don't realize how important it can be to methodically develop planning and investing goals at a young age. Time can be a young saver's greatest ally."

Here, Wan shares four key considerations for young savers when it comes to prioritizing long-term savings and investment plans.

#1: Begin saving and investing now

Start saving for retirement as soon as you can. The sooner you start, the more time every dollar saved has the potential to grow. If dollars saved early in your working years generate investment gains year after year, they can have a much bigger impact on the size of your account balance at retirement than you might think. Thanks to the power of compounding, as the dollars invested potentially earn returns, those reinvested returns can start earning returns, and so on—year after year.

"For younger investors, compounding returns become especially powerful given their longer time horizon, so an early start can make a dramatic difference in helping investors reach their financial goals," says Wan.

#2: Adopt a planning mindset

Research from the 2020 Wells Fargo Annual Retirement Study points to a need for better preparation to help investors meet their long-term goals on their terms. One of the key factors identified in the report is that of a planning mindset—a positive and proactive stance that could set savers on a path to positive financial outcomes. A planning mindset can provide a road map that can help strengthen a person's financial future.

#3: Start with small changes

Small changes in your financial behavior today could have a big impact on long-term success. Creating a budget, building healthy financial habits, and becoming more comfortable and familiar with investing could go a long way in contributing toward achieving long-term financial goals.

Some practices to consider:

- Automatically transferring part of your income into a savings account or an investment account.
- Paying down student loans to avoid late fees and damage to credit scores.

#4: Take full advantage of retirement savings plans

Wan recommends that if your employer offers a 401(k) plan, be sure to participate—and max out any kind of matching-contribution offers. They are the equivalent of free money.

Roth IRAs—to which you contribute after-tax dollars—are also worth a closer look because they offer tax-free growth potential. Investment earnings are also distributed tax-free in retirement if specific requirements are met.

"Another savings vehicle to consider is a Health Savings Account (HSA), which offers tax benefits to qualified investors," Wan says.

A discussion with an investment professional about your investment goals can help you develop a long-term plan and strategies to potentially help you achieve those goals

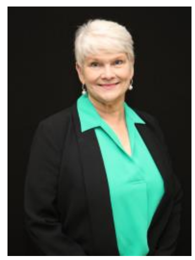
Blake Kopplin
Managing Director – Investments
210-489-7676
Blake.kopplin@wellsfargoadvisors.com

Randy Keeth
Senior Financial Advisor
210-489-7695
Randal.keeth@wellsfargoadvisors.com

Jim Rhodes
Senior Financial Officer
210-489-7679
James.rhodes@wellsfargoadvisors.com

Scott Glover, CFA
Financial Advisor
210-489-7684
Scott.glover2@wellsfargoadvisors.com

Joe DiRago
Financial Advisor
210-489-7670
Joe.dirago@wellsfargoadvisors.com



Penny DiRago
Financial Consultant
210-489-7671
Penny.dirago@wellsfargoadvisors.com

Bill Lee
Financial Advisor
210-489-7685
William.a.lee1@wellsfargoadvisors.com

Dinah Allerkamp
Senior Client Associate
210-489-7672
Dinah.allerkamp@wellsfargoadvisors.com

Jerrod Fraser
Registered Client Associate
210-489-7672
Jerrod.fraser@wellsfargoadvisors.com

777 E. Sonterra Blvd, Suite 175
San Antonio, TX 78258
210-404-1120

For More Information, please visit:

www.sawealthmanagentgroup.com

PM-03062025-5932200.1.1