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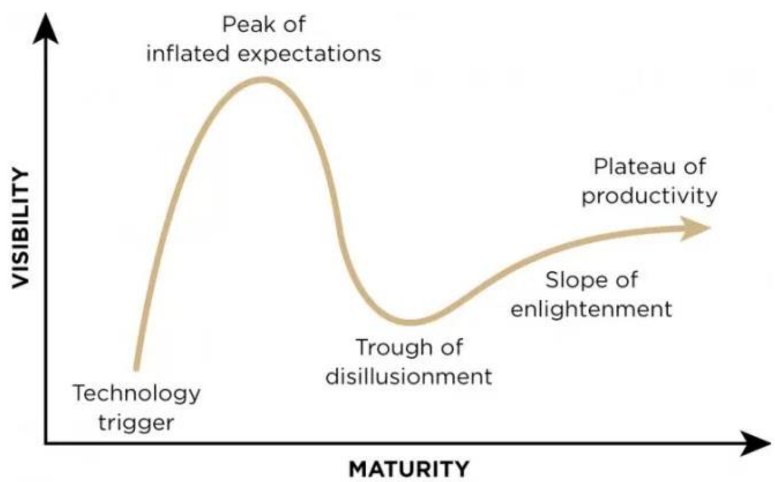
Hype Cycle Redux: Game of Pin the Tail on the Donkey

Remember Pin the Tail on the Donkey? The classic birthday party game where children are instructed to pin the tail on the image of a donkey on the wall after being blindfolded and spun around. Tails often end up in fun places, and despite the chaos, those closest to the tail get the “loot bag prize”.

In many ways, investing isn’t all that different. The markets are full of noise and speculation, where enthusiasm sometimes drives decisions more than fundamentals. Just like the game, investors sometimes make decisions based on what “feels” right, only to discover that their choice was off. In investing, it is crucial for investors to understand the boundaries of that uncertainty and know when to avoid getting caught in blind enthusiasm.

Gartner is a technology consulting firm and are world-class experts in telling the world where on its patented Hype Cycle any technology sits today. Below is Gartner’s basic Hype cycle chart that tries to capture something that’s difficult to predict – human behaviour.



How to Read the Curve (and How it Applies to Investing)

After a successful technology innovation is released, its adoption and enthusiasm grow rapidly. A compelling demo or successful pilot sparks imaginations. As enthusiasm builds, humans bet and forecast, and may begin to wonder: if it can do X, surely it could do X+Y…or even 10X? Capital piles in. Forecasts stretch. Narratives heat up.

Eventually, reality sets in. Doubts surface and limitations emerge. The enthusiasm tempers, often too much, dropping until a consensus emerges of what the technology’s real value is, and it eventually finds stability. Until a new technology breakthrough resets the cycle.

Though used for technology, this curve applies well to financial markets too.

If you were asked to place a pin on the Hype Cycle for:

- AI Enthusiasm
- Hyperscalers
- Data Centers
- Equity markets
- Private Credit
- Passive Investing

Where would your hand land?

“This Time Is Different”

The recurring patterns of overconfidence and stretched valuations we’ve seen in market history have real consequences on returns. Many cycles experience a moment when confidence swells just enough for investors to declare that the old rules no longer apply. That moment is usually where the trouble begins.

The Hype Cycle serves as a reminder that excitement can outrun reality, that narratives can outpace fundamentals and that even extraordinary technologies can follow very ordinary patterns. AI may be one of the most significant innovations of our lifetime, but it doesn’t negate the fundamentals of market cycles or human behaviour. Believing that “this time is different” has historically led investors to place their pins too high on the curve, overestimating the potential and expecting perpetual growth, which leads to overexposure and potential losses when reality sets in.

Ensuring your portfolio is well diversified and constructed to preserve capital, manage risk and weather inevitable volatility has never been more crucial. Knowing where to place your pin isn’t just about finding the next big thing. It’s about understanding the risks and making sure your portfolio is positioned to withstand the cycle, no matter where the "donkey" ends up.

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