Sionna Investment Managers®

INSIGHT

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Natural Folly in the Age of Artificial Intelligence

Artificial Intelligence (AI) seems to be front and center everywhere these days. My daily newsfeed typically has multiple headlines talking about AI. I can't recall a recent management meeting that doesn't at least touch on the topic. Companies are eager to demonstrate their fluency with the technology, lest they be judged obsolete. This enthusiasm is understandable. AI has the potential to redefine productivity and transform whole industries (and even societies). But there is much uncertainty with the rate of AI adoption, the ultimate economic impact and who the winners and losers will be tomorrow.

History is replete with examples of major technological innovations that transformed the world. Such innovations include railroads, electrification and the internet. These and other major technological changes did not progress in a straight line. They ebbed and flowed with shifting regulation and consumer behaviour. Those who invented or spent the most capital on these technologies were not necessarily the primary beneficiaries. Some investors made out like bandits. Others were left in ruins. AI will not be different.

Against this backdrop of uncertainty there are risks brewing. Valuations imply enormous growth and profits ahead. There has been heavy borrowing to fund massive capital expenditures. And the entanglement of partnerships and investments between AI-related companies may pose systematic risk. Vigilance is warranted.

Artificial intelligence is a timely topic; natural folly a timeless one

In this heady environment, it's important for investors to lean on what is certain to affect investment returns – our cognitive biases, the built-in natural folly hardwired in our brains. These psychological quirks are inescapable and can cause poor decision-making when it comes to investments.

In particular, the current environment is ripe for the following biases to deceive us:

- Recency bias: the tendency to over-emphasize information that's recent, vivid and easy to recall.
- Confirmation bias: the tendency to consume information that confirms what you already believe.
- Narrative bias: overweighting a story and ignoring base rates.

These biases impact decision making and can mask what is going on beneath the surface. For example, the recent AI craze and the market's excitement for growth-like stocks would lead one to believe that growth has significantly outperformed the overlooked value style over the last several years. It would likely surprise many investors that over the last five years, value sneakily outperformed growth while remaining slightly less volatile overall – both in the Canadian and International markets.

Canadian Market

	Annualized Total Return	Annualized Standard Deviation
Value Index	20.0%	13.0%
S&P/TSX Composite Index	16.1%	11.9%
Growth Index	11.9%	13.3%

International Market

	Annualized Total Return	Annualized Standard Deviation
Value Index	15.0%	10.4%
MSCI EAFE Index	10.5%	10.7%
Growth Index	6.0%	12.9%

Source: Sionna Investment Managers and FactSet. Returns and Standard Deviation based on 5-year numbers as at December 31, 2025.

An Algorithmic Solution

Focusing on fundamentals, investing with skepticism, and implementing disciplined guardrails has enabled us to find opportunities that have seen growth-like returns, while some investors chased returns in the more followed (and more expensive) growth space.

Consider a holding in several of our portfolios – Quebecor. For a few years, the telecom industry was mired in a price war just when immigration policy changes severely reduced population growth. For Quebecor specifically, the company also had to manage its new national wireless business after acquiring Freedom Mobile from Shaw Communications. As industry competition intensified, investor sentiment soured.

Investors focused on recent results and neglected the cyclicality of industry pricing competitions (recency bias). As the negative commentary got louder, the collective echoed each other’s disapproval (confirmation bias). “The telecom industry competes irrationally and there will be no growth as a result” (narrative bias). Despite the prevalence of these biases, Quebecor had a remarkable 2025 and achieved a 60% total return. And we still believe there is room for the stock to grow. We were able to invest in a quality business trading at a discount to its intrinsic value because the market was overlooking fundamentals.

A Prompt to Avoid Hallucination

AI is captivating not only because of its enormous potential, but also because uncertainty fuels imaginations. Landmark technological changes do not progress linearly and winners and losers are difficult to suss out ahead of time. What is certain, however, is how cognitive biases will loom during times of momentous change. You can bank on biases warping investors’ judgement. Fortunately, these mental shortcomings are well-studied and understood. The challenge is to have the discipline to avoid these tendencies. Here’s hoping that machine learning is accompanied by human learning this time around.

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