

"We believe that stocks with sustainable dividend growth consistently outperform the market with less risk."

Pied Piper

"No, no, no... no revenue... If you have no revenue, you can say you are pre-revenue. You are a potential pure play. It is not about how much you earn, it is about what you're worth, and who's worth the most? Companies that lose money."

- Silicon Valley, Season 2, Episode 3



Last quarter, in "Let's Go to Vegas," we highlighted how momentum stocks left quality stocks in the dust post "Liberation Day" lows in early April. That theme accelerated during the September quarter, fueling an even more striking rally in shares of thematic, momentum-oriented companies. Any investor focused on quality, profitable companies was frustratingly left behind.

A confluence of events explains the performance gap, including a surge in new retail traders, "meme" related short squeezes, and levered trading schemes. Adding yet more excitement, the US Federal Reserve Bank announced another reduction in short-term borrowing rates, with future cuts expected.

"Don't fight the Fed," the saying goes. However, the most notable driver of this speculative boom is the massive artificial intelligence (AI) investment cycle. Investors and allocators alike now truly wonder if "this time is different."

In this Review, we share evidence of why "this time" is not "different" and highlight the following:

1. Market performance is being dominated by thematic momentum stocks, including many unprofitable companies.
2. While there will be some spectacular successes among them, most will fall back to Earth as many losers are separated from just a few winners.
3. Quality will again have its day: the prudent investor can choose what has worked across cycles, specifically, buying quality companies underpinned by rising earnings, cash flow, and dividends.

Palpable Change Fuels Speculative Frenzy

Rapid, simultaneous transformations are occurring across many fields, from AI and nuclear energy to quantum computing and finance. This has led to a bifurcation of recent stock performance, with shares of potential direct beneficiaries significantly outperforming most other companies.

Consumers and businesses are increasingly using AI to perform research, write reports, code programs, and automate mundane or even more complex processes. Accordingly, leading private players are reporting rapid growth.¹ OpenAI's ChatGPT recently surpassed

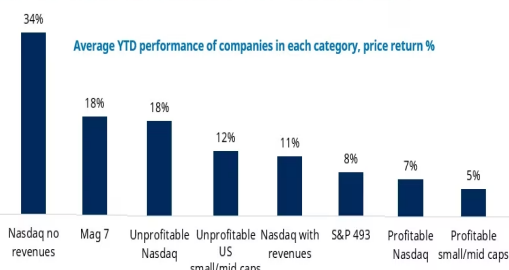
800 million weekly users – approximately 10% of the global population – and estimates 2025 revenue at approximately \$13 billion, while Anthropic projects an annual revenue run rate of \$9 billion at year-end.²

Likewise, large public "hyperscalers" –

including Microsoft, Meta, and Google, owned in Copeland's portfolios – are rapidly investing to implement AI features across their product suites.

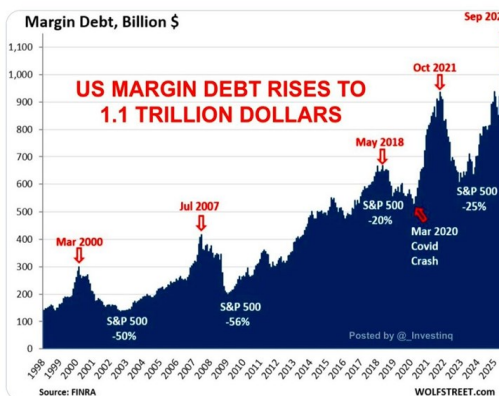
These developments are profoundly impacting our daily lives, and expectations are high that more game changing advancements are on the way. This euphoric narrative has propelled a wide range of thematic stocks upward (Chart 1), with the best performers having little or no revenue, much like "Pied Piper" – the fictional pre-revenue company in HBO's *Silicon Valley*. Meanwhile, the large "Magnificent 7" stocks have also outperformed given their scale, profitability, and AI exposure. Hunger for hot stocks is being fed by growing retail investor participation and margin debt, which has spiked to record levels (Chart 2).

Chart 1. "A divided US market"



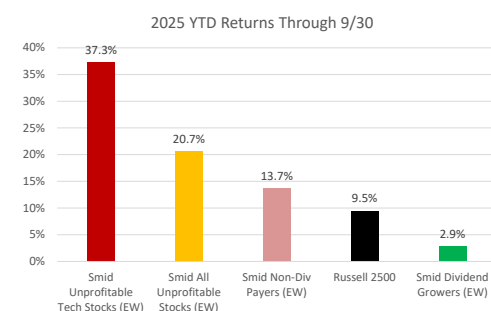
Source: Schroders Equity Lens October 2025³

Chart 2. Record Margin Debt



Source: Wolf Street <https://wolfstreet.com/2025/10/15/stock-market-leverage-blows-out/>

Chart 3. Unprofitable Stocks Lead Smid Cap



Source: FactSet and CCM. You cannot invest directly in an Index. For information on the Index shown above as well as other important information, please refer to the Disclosures section.

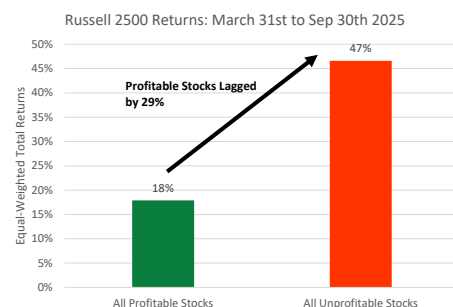
Smid Cap Performance Explained

The "no revenue" momentum rally has been especially pronounced among smaller capitalization equities. The Russell 2500 Smid Cap Index, for example, has been led by unproven, money-losing companies with future profits nowhere in sight.⁴

Year-to-date, the return of unprofitable tech companies bested the benchmark nearly four-fold and dividend growers almost 13-fold (Chart 3). This trend accelerated during the third quarter and was particularly dramatic for the month of September.

Chart 4 shows the performance of all unprofitable stocks relative to all profitable stocks over the last six months. Money-losers

Chart 4. All Unprofitable vs. Profitable Smid Cap Stocks Over Last Six Months



Source: FactSet and CCM. You cannot invest directly in an Index. For information on the Index shown above as well as other important information, please refer to the Disclosures section.

beat shares of money-makers by 29%.

Nuclear and Quantum to the Moon

The nuclear and quantum computing segments provide examples of unprofitable stocks ripping higher on news both consequential and insignificant.

Nuclear is a leading candidate to meet anticipated AI power needs. The current US administration has provided explicit support to accelerate licensing, testing, and deployment.⁵ While more than 80 companies around the world are developing new forms of nuclear reactors, investors have clamored for three public pure plays on this theme: Oklo, Inc. (OKLO), NuScale Power Corporation (SMR), and Nano Nuclear Energy (NNE).⁶

Through September, shares of Oklo were up 17-fold over the past year while NuScale and Nano were both up four-fold. By contrast, the Russell 2500 Index was up approximately 6%.⁴ Oklo and Nano are pre-revenue while NuScale's tiny revenue base is more than offset by substantial expenses. Goldman Sachs estimates that Oklo will first generate positive free cash flow in – wait for it – 2041.⁷ While the progress of each company looks promising, the timeline to commercialization remains murky, competitive, and risky.

Meanwhile, several quantum computing stocks are up more than 50-fold over the past year.⁴ Barron's recently noted that the group of four publicly traded quantum computing companies had "a collective market value of around \$55 billion," but only "generated approximately \$26 million in sales over three months" through June.⁸ This equates to a 529 times price to annualized sales multiple.

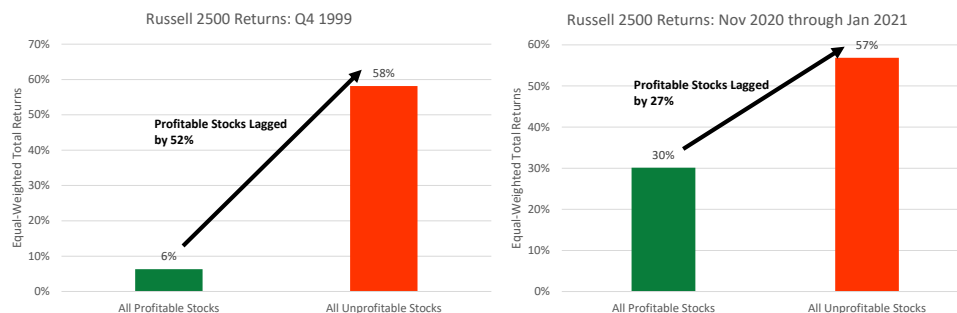
Even more astounding is that the group's collective annualized net losses through June tripled year-over-year to negative \$986 million.⁴ Although collective revenue is expected to rise rapidly in 2026, current Street estimates show the group's annual net losses at approximately \$800 million in each of 2026, 2027, and 2028.

Easy Come, Easy Go

The change-the-world narrative can be intoxicating, even for professional investors. Suddenly, like the Silicon Valley quote, "companies that lose money" are "worth the most," and "pure play" stocks are uniquely valuable. Regret and fear-of-missing-out (FOMO) can cause market participants to deviate from stated philosophies and chase performance.

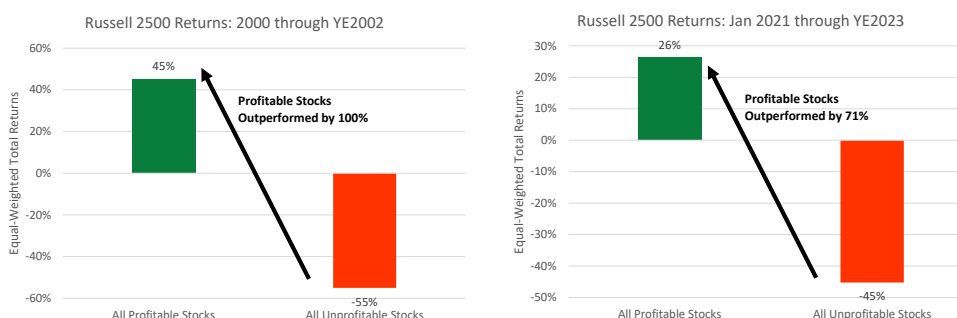
But, we've been here before. Recall similar periods during the late 1990s technology bubble, and more recently during the pandemic stimulus era. During the fourth quarter of 1999, profitable stocks lagged

Chart 5. All Unprofitable vs. Profitable Smid Cap Stocks in Periods of 1999 and 2021



Source: FactSet and CCM. You cannot invest directly in an Index. For information on the Index shown above as well as other important information, please refer to the Disclosures section.

Chart 6. All Unprofitable vs. Profitable Smid Cap Stocks for 2000-2002 and 2021-2023



Source: FactSet and CCM. You cannot invest directly in an Index. For information on the Index shown above as well as other important information, please refer to the Disclosures section.

unprofitable stocks by a whopping 52%, while during the latter period – ending in February 2021 – profitable stocks trailed by 27% (Chart 5).

Seasoned investors who lived through the 1990s tech boom will remember shares of newly minted public companies with limited revenue surging on bullish prognostications, not of sales or profits, but mere "eyeballs." The eyeballs represented website visitors and – since this was the "World-Wide-Web" – the potential to capture billions of eyeballs was, of course, very exciting. Moreover, these were "pure plays."

Of course, the ability to generate a profit eventually matters. Invariably, something transpires to break whatever mania is at hand and the market becomes ruthless, unforgiving toward unproven, profitless companies. Following each of these speculative periods, the subsequent performance reversal over multiple years was stark as profits again became paramount (Chart 6).

A post-mortem of the 20 best Russell 2500 performers in the 2020-2021 period is instructive. Through September 2025, four subsequently went bankrupt and 15 suffered a median decline of 89%.⁴ Only one stock saw a positive return.

Bubble Talk

Given epic levels of investment, media articles now point to "bubble" risks in AI and ancillary

areas.⁹ The discussion relates to the sustainability of massive AI spending and dotcom bust déjà vu.

Spending for the 1990s dotcom build out peaked in 2000 at nearly \$300 billion in global capital expenditures.¹⁰ At that time, numerous telecom companies were racing to crisscross fiberoptic lines across America. The goal was to connect every computer to the Internet so that dozens of upstart Web search engines and other new dotcom companies could capture the aforementioned "eyeballs." Capex ballooned and vendors stepped in to help provide customer financing. In the end, countless darlings such as WorldCom, Global Crossing, Exodus Communications and Enron all went bankrupt.

Similarly, today, hundreds of companies are racing to build AI platforms at huge expense. The pace and sheer magnitude of recent "circular" funding pacts, adding up to trillions, is unprecedented, dwarfing the dotcom spend.¹¹ Nvidia estimates 2026 data center capex at \$1.0 trillion growing 40% annually to \$3.5 trillion in 2030 (Chart 7).¹² Further, according to the Edison Electric Institute, investor-owned utilities will spend more than \$1.1 trillion on capital expenditures for 2025 through 2029 as they race to supply adequate power.¹³

At this point, deep-pocketed hyperscalers are raising their spending plans while shallow-pocketed upstarts such as OpenAI, Anthropic,

and others are raising their cash burn rate plans.¹⁴ Even with sizable expected revenue growth, OpenAI forecasts cash burn of \$8 billion swelling to \$45 billion in 2028. Private and public partners are lining up to provide backing, often involving complex barter-like combinations of services or products. These deals harken back to those of the dotcom period.

Indeed, companies such as Nvidia, Microsoft, and Meta generate very large profits and can continue to fund high levels of investment. Yet, in 2000, companies such as Dell, Cisco Systems, and Qualcomm were also extremely profitable. That didn't prevent the NASDAQ-100 Index from falling 78% from 2000 to 2002.¹⁵ Anyone who invested in the NASDAQ-100 Index in early 2000 (prior to its peak), would have still been down 50% in 2007. To get back to even, the wait was 14 years, nearly twice as long.⁴

Notably, Bank of America recently reported that "the S&P 500 is statistically expensive on 20 of 20 metrics and has never been more expensive on Market Cap to GDP, P/BV, P/OCF, and EV/Sales."¹⁶ The firm added that the index "also trades above its Tech Bubble levels on nine metrics."

Ultimately, all investments – private or public – carry an opportunity cost and need to deliver returns commensurate with risk. In that regard, no "time" is ever "different." The value of any business is – always and forever – based on underlying excess cash flow relative to the invested capital required to generate the cash flow. For that business to become more valuable over time, rising cash flows are required, preferably with minimal incremental capital. As in the folk legend, the Pied Piper needs to be paid, otherwise what is most dear will be taken away.

The Prudent Investor

There will surely be some big AI winners, but many more will fail. Technological change is rapid, including methods that significantly reduce compute and power requirements.¹⁷ Leaders today may not be so tomorrow. In 1999, there were numerous leading search engines, but Google was not one of them. Today, Google is the only significant search player remaining.

For unprofitable public companies trading at lofty valuations, historic evidence points to the likelihood of material downside. It is not an "if," but a "when" gravity returns and valuations compress to lower levels. This will drag downward passive indexes and vehicles that hold these stocks.

At Copeland, we require an extra layer of safety by also demanding a rising dividend. When companies have no track record of dividends, let alone earnings – or even revenue

– risks are increasingly magnified, particularly if a heavy debt burden is utilized. The difference shows up in performance.

From 1982 to 2024, Smid Cap dividend growth stocks significantly outperformed non-dividend payers, delivering annualized returns of 14.4% compared to 8.0%, respectively, according to Ned Davis Research. Despite this, over that same period, non-dividend payers outperformed the benchmark in almost one-third of the rolling one-year periods in that time frame (Chart 8).

Chart 7. Nvidia's Hockey Stick Forecast for Data Center Capex

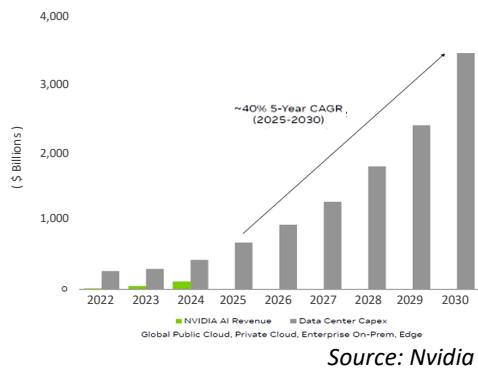


Chart 8. Performance over Rolling Periods—Dividend Growth Shines

	Initiation Date	Benchmark (total return)	One Year Rolling	Three Year Rolling	Five Year Rolling	Ten Year Rolling
Smid Cap Dividend	9/30/1982	Russell 2500® Index	64%	75%	75%	92%
Smid Cap Flat Dividend	9/30/1982	Russell 2500® Index	44%	35%	25%	28%
Smid Cap Non-Dividend	9/30/1982	Russell 2500® Index	34%	22%	21%	9%
Smid Cap Dividend	9/30/1982	Russell 2500® Index	30%	17%	14%	12%

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This means that periods such as today can happen, and likely will again. Importantly, when looking at rolling three- and five-year periods, the benefits of being invested in dividend growth stocks increases. By contrast, investing in non-dividend payers substantially reduces the probability of outperforming the benchmark during longer rolling periods.

Remarkably, quality companies today have been left behind. Prudent investors can now be contrarians, mitigating risk and improving odds of future success by investing in profitable companies with rising dividends. There is no hold-your-breath, leap of faith required. Business valuation, track record, and history all strongly suggest that, in due course, "companies that lose money" will no longer be "worth the most." In fact, many will be forced to pay the Pied Piper.

October 2025

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2 TechCrunch <https://techcrunch.com/2025/10/06/sam-altman-says-chatgpt-has-hit-800m-weekly-active-users/>

3 Schoders <https://www.schroders.com/en-us/us/intermediary/insights/schroders-equity-lens-october-2025-your-go-to-guide-to-global-equity-markets/>

4 FactSet

5 US DOE <https://www.energy.gov/ne/articles/9-key-takeaways-president-trumps-executive-orders-nuclear-energy>

6 Barron's https://www.barrons.com/articles/nuclear-energy-ipo-stocks-terra-terrestrial-eagle-7c541d05?st=58U4pw&reflink=desktopwebshare_permalink

7 Goldman Sachs, Oklo Inc. (OKLO) A catalyst-rich nuclear SMR technology pioneer, 9/24/25

8 Barron's <https://www.barrons.com/articles/rigetti-ionq-quantum-stocks-bubble-46ed270c>

9 E.g., see WSJ https://www.wsj.com/tech/ai/ai-bubble-building-spre-55ee6128?st=DcKiNn&reflink=desktopwebshare_permalink and Barron's https://www.barrons.com/articles/ai-stock-market-bubble-dot-com-f252b2bd?st=tgst1U&reflink=desktopwebshare_permalink

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15 CNBC <https://www.cnbc.com/2025/09/06/openai-business-to-burn-115-billion-through-2029-the-information.html>

16 Wikipedia https://en.wikipedia.org/wiki/Dot-com_bubble

17 BofA, Subramanian, et al, "Five mounting risks for the S&P 500. Be selective." 10/20/25

18 Yahoo <https://finance.yahoo.com/news/alibaba-cloud-claims-slash-nvidia-093000646.html>

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Definitions

Dividend Growth Rate: The annualized percentage rate of growth that a particular stock's dividend undergoes over a period of time.

EBITDA: Earnings Before Interest, Taxes, Depreciation, and Amortization, is a financial metric used to evaluate a company's operational performance and profitability. It measures a company's earnings before factoring in the effects of financing decisions (interest), tax expenses, and non-cash expenses like depreciation and amortization.

Net Loss: A net loss occurs when a company's total expenses exceed its total revenues during a given period.

NTM: Next twelve months.

P/E Ratio: The Price-to-Earnings Ratio of a stock is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share.

Price/Sales Multiple: Price-to-sales ratio (P/S) measures a company's stock price relative to its revenues.

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