# Picks and Shovels

*Perspectives: August 12th, 2025*

In the course of the 1800's, many of the frontier trading outposts in the North American West became boomtowns. Enterprise, ambition, and greed served to attract people and companies from all over the world, lured by apparently abundant natural resources in this region – above ground [*animal furs, timber, farmland*] and below ground [*gold, copper, coal, lead, zinc*].

Some of the most successful, albeit notorious, early business ventures was to provision arriving adventurers. Of course, unlike today, these newcomers did not have the ability to gain reliable advance knowledge of the territory, peoples, or conditions they were going to experience. They also did not have a range of options to choose supplies from, so it was easy for merchants to take advantage of them – over-inflating prices and knowingly selling them, or advising them to buy, things they surely knew would never be needed.

Legend has it that in some cases unscrupulous merchants were known to have created a repeat reselling loop. They did this by repurchasing the now-known-to-be-useless goods at their faraway end destinations at a huge discount, transporting it back, and then reselling it at inflated new goods prices to the next sets of arriving adventurers. Over and over. This farcical game continued on for many years because the fate of those early adventurers were all too often one or more of death, bankruptcy, or emigration.

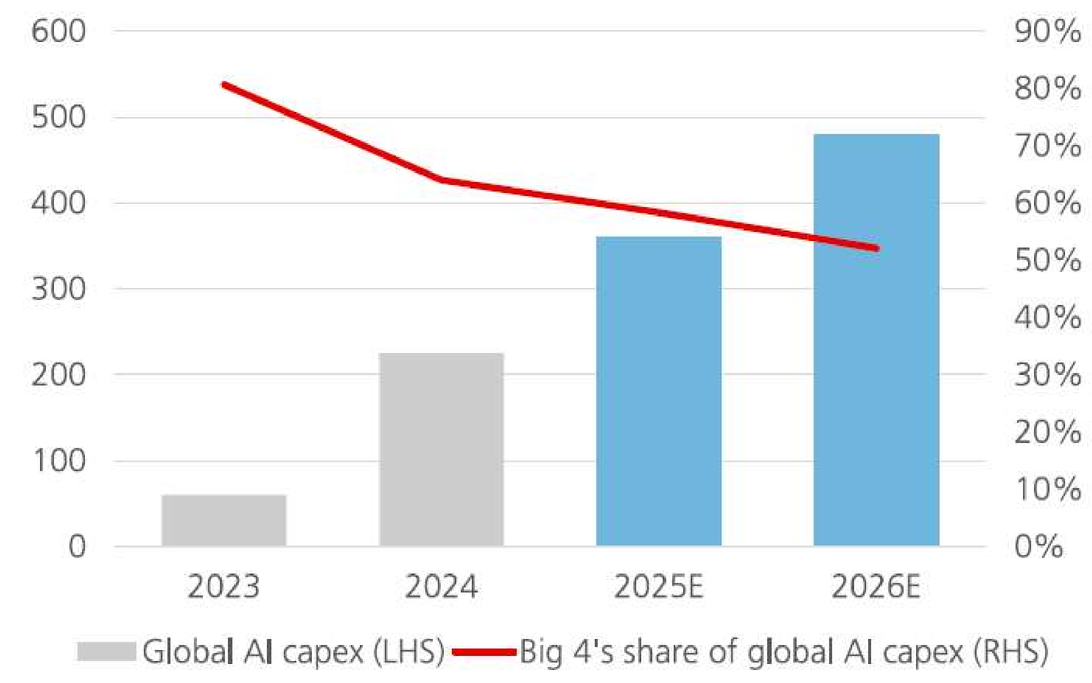
This is the sort of thing that likely contributed to the well known investment analogy that *'it is better to invest in the pick and shovel providers than mining for gold oneself'*.

There are a number of other global industries today where this investment analogy remains valid. The economics of the handful of original equipment manufacturers of airplanes and its components are far superior to and less volatile than the fragmented, highly competitive airline industry. In the music, film, and book writing industries, the best returns are made by the platform aggregators; not the musicians, actors, and authors [*taken as a whole*]. In the gambling industry, it is the house that [always!] makes the money; not the punters [*taken as a whole*]. One of the oldest boardgames, Monopoly, invented by Elizabeth Magie in 1905, teaches one irrefutable rule – the bank wins *every* time.

In a recent publicly available report, UBS Global Wealth Management expects global capital investment into AI [*so-named 'Artificial Intelligence'*] from technology companies to reach an astronomical US$ 360bn in 2025 and then grow significantly by 33% to US$480bn in 2026.

Fig. 1: With broadening spend, strong AI capex growth should continue in 2025 and 2026

We expect global AI capex to grow by 60% in 2025 and 33% in 2026 (USD bn)




Source: Company reports, UBS estimates as of April 2025

*Source: UBS, Beyond the Big 4 in AI, 23 April 2025*

Understandably, this generated tremendous stock market excitement by market participants in listed companies engaged in developing AI technologies. **However, what is not clear yet is how and where the future economic returns on all of this massive capital spending is going to be** produced, who it is going to accrue to, and for how long it can or will be sustained for.

An interesting factoid emerges – UBS also estimates that 25% of that US$480bn to be spent in 2026 will be allocated to 'Industrial Capex' – that is, to building the vast global physical infrastructure required to run AI. This infrastructure includes large-scale datacentres, cooling systems, water, and power.

To put this into a more relatable context – Meta's new Hyperion datacentre complex in Louisiana will be about the size of Manhattan, and will require up to 2 Gigawatts of power and 100,000 gallons of clean water - *daily*. A typical nuclear power plant generates 1 Gigawatt of power, so they would need two of those puppies *solely* dedicated. Also, an average sized residential swimming pool contains 15,000 gallons of water, so they would need about 7 of those, refilled every day with clean potable water.

Some 5 years ago, our investment team uncovered and invested in a little known [*then and now*] German listed midcap construction business called **Hochtief**. One of the many fascinating things about Hochtief is that - despite being listed in Germany - it is predominantly a US based business. Also, among many other things, it is a global construction industry leader in building and operating the physical infrastructure required to run AI.


*Source: Google Finance*

It is not clear to me yet who wins the AI space race. All that I can see today is a huge number of the world's cleverest and wealthiest people and companies throwing *vast* amounts of money at it, with no guarantees.

My first instinct is to compare this to the gold mining boom of the late 1800's. A huge number of the world's cleverest, wealthiest people and companies threw enormous amounts of capital at it. Only a small handful found gold and mined it profitably – not for very long, mind you. Most one or more of died, went bankrupt, or left the industry.

The real question is: Who then made off with most of the money? Mining engineers, operating mining contractors, mine construction companies, mining equipment manufacturers and distributors, explosives manufacturers, bandits, auditors, lawyers, and the bankers and banks [*remember, the bank always wins*]. 'Picks and shovels', indeed!

Our work continues...

Daniel Malan, CFA
Founder, Managing Director & Chief Investment Officer
daniel@perspectiveim.co.za

Perspective Investment Management
www.perspectiveim.co.za

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