The reality behind AI replacement - excuse from management – 20260227

Since the news of AI replacement blowed up in the market, there can be another explanation for this: **Instead of AI replacement, its cost saving from decreased revenue while former is much easier to say from management.**

OpenAI CEO Sam Altman believes that some of the damage isn't entirely the fault of AI firms. He raised his belief that so-called "AI washing," where AI is being falsely blamed for layoffs in some businesses, is being used as an excuse to reduce headcounts.

From a management perspective, will you choose A) AI transformation or B) The business is diminishing / we are not doing well so we have to cut headcount? The answer is so obvious.

As it's hard to understand the ratio of true AI transformation vs HC cut, I believe the need of human is continuously growing which will create new jobs, opportunities and needs in the future. Current fears of artificial intelligence replacing workers are largely overstated.

Economic data from a National Bureau of Economic Research study contradicts the narrative of algorithmic job replacement. Over 90 percent of surveyed international managers saw zero employment impact from new technologies over the past three years. Furthermore, 89 percent of these corporate leaders reported no change in labour productivity resulting from automation adoption.

For the excessive news we are taking, nowadays, one can easily get flood of information while the quality becomes so important that a filter and rejection of low-quality ones is beneficial. Logic similar in financial market, people swing in opinions, but calming down and think deeply will make one stand out which from result perspective not bothered by short term sentiment or prices.

Success in this future landscape will require individuals to filter high volumes of data and maintain objective long-term perspectives.

Written 20260227 in Hong Kong. -- Xiaowen

Quantamental investing - From single stock performance to factor exposure (1) – 20260225

This article opens research for the long-time question in my mind: For a given period, the performance of a stock is exposed to what factor (or what kind of risk in risk-control term).

The key will be: To use a factor model and estimate the stock's factor loadings with regression.

For example, A stock excessive return over risk free in the past three month is to what extend exposed to: US Stock - US Rf Small over Big (IWM - SPY) Total stock market over US market (VT vs VTI) US Stock over US bond (VTI - IEF) Industry over overall stocks (IGV vs SPY) Value over growth (VTV vs VTG)

After that, a stock can be designed to its exposure to above factors.

Take

$MSFT

as an examples in the past 100 days. Most of the drawdown can be explained in three factors: 1. Market transit to small value companies 2. Market appetite change towards bonds, stock over bond effect is weak 3. IGV as an industry indicator is weak against overall stock market

MSFT 100 days factor exposure		Coefficients	Standard Error	t Stat	P-value
Other factors	Intercept	0.0001	0.0013	0.0971	0.9229
Small minus big	IWM - SPY	- 0.6760	0.2061	- 3.2804	0.0015
Global - US	VT- VTI	1.1647	0.6920	1.6830	0.0957
Stock over bond	VTI - IEF	1.1023	0.2683	4.1086	0.0001
Software over SPY	IGV - SPY	0.7248	0.1124	6.4509	0.0000
Growth over quality	VTG - VTV	0.3579	0.3532	1.0135	0.3134

Factors MSFT is exposed to in the past 100 days

In case of doubt on other factors, same significance result with three factors only.

		Coefficientsandard Erro		t Stat	P-value
Other factors	Intercept	0.0004	0.0013	0.3449	0.7309
Small minus big	X Variable 1	- 0.7781	0.1718	- 4.5302	0.0000
Stock over bond	X Variable 2	0.8134	0.1544	5.2667	0.0000
Software over SPY	X Variable 3	0.7480	0.0995	7.5169	0.0000

The next steps will be

1. looking at quantamental funds about their ideas in investing. E.g. AQR, Millennium, Balyasny, Rayliant Global Advisors, Guggenheim Investments.
2. Including factor sentiment for analysis and monitoring

Written 20260225 in Hong Kong. -- Xiaowen

AI Era - young man's future choices (after Citrini's report) 20260224

The article of Citrini blows the market. As young people, can't help thinking what defines a good job or in other words, if my prospect on future income is fake.

For this topic, i want to refer Altman's words answering young people on AI:" **Listening to old people is the biggest mistake young people make.**"

He also mentioned:" For a predictor of what the world is going to be like going forward, I don't think you should trust me for having good intuition of the rate of change. Young people will always figure out the best and the world you are inheriting is very different. You will have to quickly develop your own intuitions and trust them. Traditional career advice is probably not going to work as well."

The future Citrini pivot disregard the creativity the young can make in that case, it assumes the world maintain what we are now given advanced tool in 2028. The logic is it's not possible to imagine what will be created now, but there will be innovations once an open environment is encouraged. And those innovations will become the support for the society and economy by 2028.

I still remain confident of the future, given myself as an open-minded and life-long learner. The above information triggered my thinking of old generation advice and personal choices.

The exponential growth of artificial intelligence is rendering historical precedent obsolete as a reliable guide for the future. Instead of taking advice from mentors, graduates must abandon outdated, linear career formulas and instead cultivate high personal agency, relying on your own adaptability and intuition to leverage emerging technologies. The economic landscape they are inheriting will not operate by the rules established over the past few decades.

Obsolescence of Traditional Careers:

The conventional playbook of steadily climbing a corporate ladder is becoming increasingly fragile as artificial intelligence disrupts established workflows. Because new tools allow a single individual to execute projects that previously required entire teams, traditional team structures and middle-management roles face rapid obsolescence. Standard career advice prioritizes incremental safety, but blindly following these outdated formulas could heavily restrict your growth in an AI-driven economy.

Young man's choices:

As too much information flying nowadays, try to write simple and executable methods.

Go for the unknown: Instead of waiting for established systems to define safe options, one can proactively build distinct intuitions and trust own ability to navigate the unknown.

Acquiring difficult, multidisciplinary technical skills: For myself, combining deep domain expertise in corporate finance with advanced frameworks like quantitative programming gives me the exact type of unique intuition Altman advocates for.

Go to an open environment that fits your idea: I have worked in traditional industry for many years, a good platform makes you able to expand your vision while a bad one makes you feel the eager to resign everyday. For an independent thinker, it's disaster to put him in bureaucratic and hierarchy environment. Easy to see it kills his innovation and competitiveness.

Given the panic in the market, hope this article provides some insights for not only myself but what the world will be like.

Written 20260224 in Hong Kong. -- Xiaowen

The future of software companies 20260223

In the last month, AI news hit various industries. However, my five year perspective on software companies:

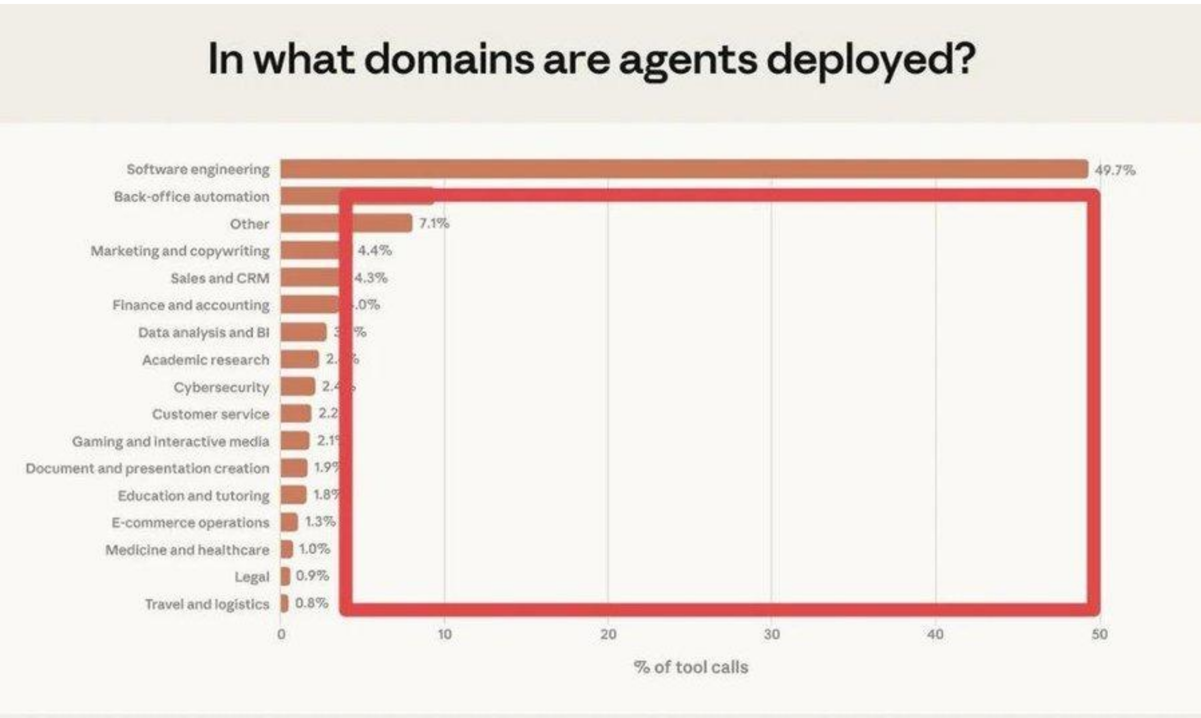
Likely be killed by AI:

- Interface strength (Quick built a similar one with function in days) - Coding based format or template (Use LLM instead of programming) - Model based on open data (No competitiveness at all in AI era) - Coding experts in specific area or industry (With difficulties of programming largely decrease, people who understand the industry will stand out if using AI correctly) - Combine sales to clients with unnecessary services (AI agent is able to use different source and vendor breaking the monopoly of software sale package)

Stimulated by AI:

- Companies with specific data (Like documents, confidential data, trust) - Compliance related - Social related (Have to use the platform when all others are using it) - Money related transactions and payment services (High switching cost and risk) - Important record hard to switch (Short term hard to be shake by AI, but companies will have to lower the price within competitions which damage profit)

Moreover, what I want share is shown in the graph below: There's still business space for AI to improve efficiency especially in legal, travel, law, etc.. In the future, we can see agent built on specific scenarios and industries that replace the position of old software.



Written 20260223 in Hong Kong. -- Xiaowen

TIC Industry - 2026 forward looking - 20260220

This article aims at combining my understanding and characteristics of the industry for what it will look like in 5 years.

For those new to the industry, TIC services as a third-party checker help recognize the quality of a product and get paid by the service. SGS as the leader in the industry, can mostly represent the industry.

The sector is a compounding, capital-light business services sector that earns its fees from being the mandatory third-party enforcer between regulation and commerce.

About the TIC industry

First, brand is the key asset of a company. Take SGS as an example, a product with SGS certification automatically provides reliability for users. The deep combine of brand name and reliability provides competitive advantage to the company. On the other hand, difficult for new-joiner to compete with.

Second, the cost management. This is a topic that I experienced multiple times in my work which is how to balance the addition costs with client need. Since TIC company is hired by the client to do quality check, it's natural to face increasing client demand for quality while lower price from competitors. While big names can argue through brand name and reputation, most companies have to compete through lowering the price.

(If you know the big four auditor, it's similar to auditors hired by shareholders to check the figures of a company)

In addition, new businesses is tricky for a TIC company as it's a gamble towards future trend. Either through M&A or internal development, even a long-term successful strategy will have huge pressure on the management through short-term results especially profitability. It can happen when choosing a temporarily popular aspect (e.g. ESG, new energy, SAAS) but turn out to be a huge failure.

From new-entry perspective: **High** for regulated, accredited testing (labs, certifications, notified-body work) — regulators choose and constrain who can operate. **Medium** for general inspection — brand helps but margins are thinner and price competition is real.

Lower for commodity auditing — vulnerable to pricing pressure; this is the segment where margin erosion concentrates.

From valuation perspective, historically the sector has traded at a long-run average of 14.2x EV/EBITDA, peaking at 17.2x at the 2018–2019 digital/ESG re-rating and troughing at 12.6x during COVID.

TIC industry - forward looking

If I am to forecast the industry, I will say:

Big brands will continue to maintain its position as long as the reputation remains. The winners will be the players that protect brand credibility while industrializing delivery through technology and targeted M&A. But it can happen that a company have a lead position in a industry that's diminishing.

Every company has a strength in certain TIC area, buying that company has exposure to that industry. Industrials, energy, products, etc.., those clients performance will influence TIC companies as suppliers so it's not an independent TIC industry but one part of a value chain within an industry.

Since now everyone is talking about AI, I don't see the obvious change in the TIC industry now, which means AI application requires management to figure out methods to implement.

What differs a good TIC vs bad TIC company? Besides valuation, revenue growth, profitability, I will look at how management maintains brand reputation. The link to trust and reliability is the key of a TIC company, without that, it will struggle in the price war without bargaining power against client.

As 2025 was turbulent for global supply chain, TIC players with wide geographic footprints and multi-body accreditation benefits from the uncertainty. Otherwise, companies with narrow geographic concentration can stand out with revenue growth and high profitability.

Finally, a good reputation needs years of effort but can be destroyed in a sudden. That's why SGS stands the lead position in the TIC industry.

Written 20260220 in Hong Kong. -- Xiaowen