

➤ **The Investment Perspective – July 2025**



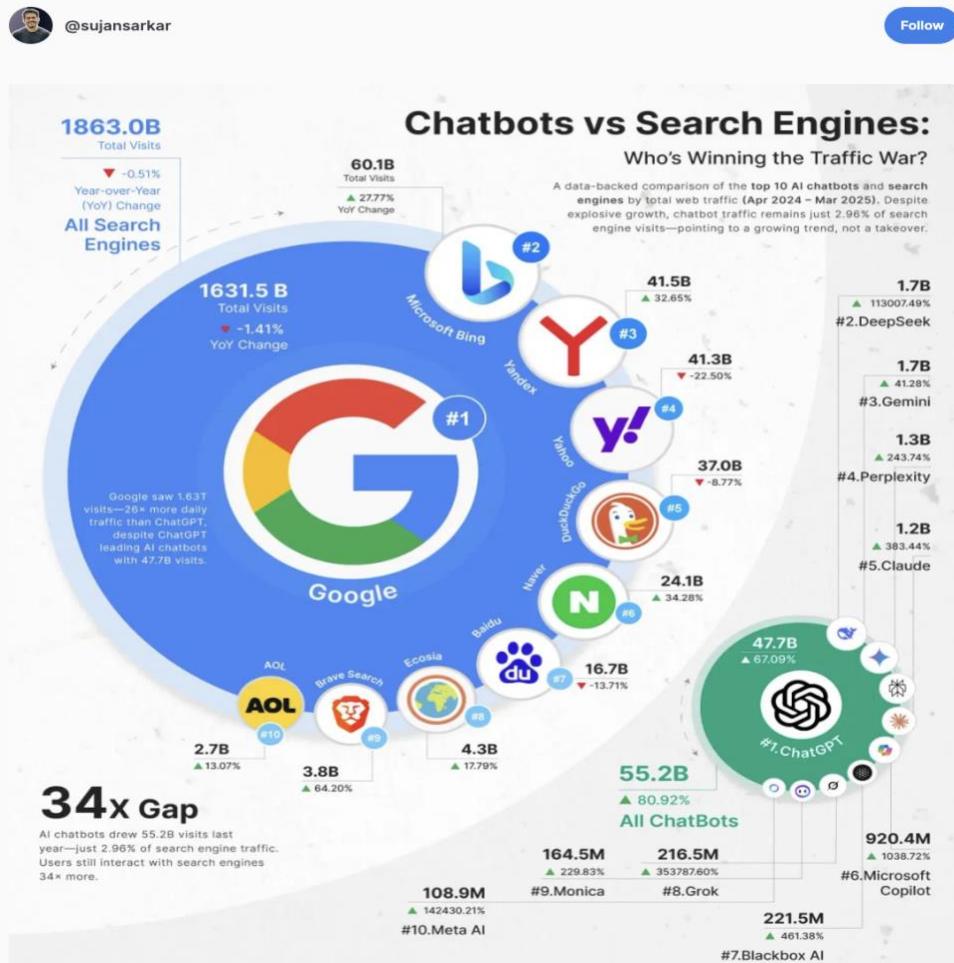
Peter Flannery CFP FA

"The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that advantage."

- Warren Buffett

AI, Alphabet, Investing.

AI Chatbots vs Search Engines: Who is Winning the Traffic War?



The infographic above shows Google's dominance over other chat bots and search engines Source: Voronoi by Visual Capitalist



Chatbots grew 80.2% over the last 12 months, but are still a long way from catching up on Google.

ChatGPT is becoming more widely used but gets 26x fewer daily visits than Google.

All chatbots combined currently account for only 3% of search engine traffic.

Google and Bing are pushing back with AI integrations like SGE and Overviews. They have the scale and resources to respond strongly.

The 'game of two halves'

On the one hand, Alphabet is facing an uncertain future, not because their global search engine dominance fell below 90%, rather it is the difficult to gauge the potential 'remedy' that the US Department of Justice is working on right now to inflict on Alphabet.

Worst case is a forced break up. That would mean a loss of future revenue and therefore lower profit in the future. That might also be reflected in a lower trading price.

Last year WISEplanning suggested scaling back Alphabet to many of our clients to derisk this component of the portfolio against that risk as well as the contingent risk of stagflation.

A bit like management at Apple, management at Alphabet appear to be adopting a defensive approach to new AI innovations rather than leading the way and taking AI innovation to the world. It can be difficult winning the game when playing defence all the time, as they say.

On the other hand, we suggested retaining a significant portion of Alphabet shares as well – for now. The idea has been to retain a reasonable holding of Alphabet shares because of the current underlying strength of the business.

Dominance in Search and Advertising

Google continues to lead the global search engine market, commanding over 90% share. In Q1 2025, search advertising revenue grew by 10% year-over-year, reaching \$50.7 billion. The introduction of AI Overviews, powered by the Gemini model, has enhanced user engagement and monetization. Notably, conversions increased by 26% compared to traditional search formats, indicating improved performance.

Strategic Diversification Across Business Segments

Beyond its core search business, Alphabet has diversified into various sectors:

- **YouTube:** Remains a significant revenue driver through advertising and premium subscriptions.
- **Google Cloud:** Achieved a 28% year-over-year revenue increase, totalling \$12.3 billion in Q2 2025, reflecting strong enterprise adoption of AI technologies.

- **Other Bets:** Investments in areas like autonomous vehicles (Waymo) and life sciences (Verily) position Alphabet for future growth.

Leadership in Artificial Intelligence Innovation

Alphabet's commitment to AI is evident through:

- **Gemini 2.5:** The latest AI model enhancing search capabilities and user experience.
- **AI Overviews:** Integrated into search results, providing conversational summaries that maintain monetization rates comparable to traditional search.
- **DeepMind:** Continues to pioneer advancements in AI research and applications.

Robust Financial Performance and Capital Allocation

Alphabet's financial strength is demonstrated by:

- **Q2 2025 Results:** Net income surged 46% to \$34.5 billion, with revenue increasing 12% to \$90.2 billion.
- **Share Buyback:** Announcement of a \$70 billion share repurchase program, reflecting confidence in the business long-term.
- **AI Investment:** A commitment of \$75 billion in capital expenditures for 2025, focusing on AI infrastructure and innovation.

Extensive Global User Base and Ecosystem

Alphabet's vast ecosystem includes:

- **Product Reach:** 15 products with over 500 million monthly active users, and 7 products exceeding 2 billion users.
- **Data Advantage:** This extensive user base provides valuable data, enhancing personalization and targeted advertising.

These strengths collectively reinforce Alphabet's position as a leading technology conglomerate, well-equipped to navigate the evolving digital landscape.

Whilst the DoJ ponders what 'remedy' to set in motion against Alphabet, it's business grows stronger with each quarterly update. Hence we continue to hold the remaining position in Alphabet, despite the looming action from the DoJ.

In that way Alphabet is 'a game of two halves' with a difficult to quantify threat to revenue and earnings on the horizon, along with being one of the most powerful business engines on the US market (not helping their defence when it comes to DoJ scrutiny!).

"Know what you own, and know why you own it."

Peter Lynch

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