

Software Stocks: Buy vs. Sell

Understanding Goldman Sachs' AI-Era Framework

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What's Happening in Software Stocks?

In early 2026, software stocks experienced a major selloff. Nearly **\$1 trillion** was wiped from software company values globally. But not all software companies are the same—some are positioned to thrive in the AI era, while others face serious challenges.

Key Insight #1: The AI Disruption

Artificial Intelligence is changing which software companies are valuable. Software that simply automates workflows can now be replaced by AI tools. But software that provides **infrastructure** (like cloud computing, cybersecurity, and data storage) actually *benefits* from more AI usage.

Key Insight #2: Goldman's "Pairs Trade"

Goldman Sachs created two lists: a "Buy" list of software companies they believe will survive (and thrive), and a "Sell" list of companies they believe face serious AI-related challenges. Understanding *why* stocks are on each list is more important than the list itself.

Reflection Question

Think about the software you use every day (apps, websites, tools). Which ones do you think could be easily replaced by AI? Which ones seem harder to replace?

The Big Picture: What Changed?

Software Valuations

- One year ago: Software traded at **51x earnings**
- Today: Software trades at **27x earnings**
- That's a **47% compression** in valuation

What This Means

Investors are now paying less for each dollar of software company profits. This could mean some stocks are now "on sale"—or it could mean the market has permanently changed its view of software's value.

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Goldman's Framework: Winners vs. Losers

Rather than just memorizing a list, understanding *why* some software companies win helps you evaluate any stock—now and in the future.

✓ What Makes Software "AI-Proof" (WINNERS)

- **Physical Execution Required** — The software needs real-world things (servers, data centers) that AI can't magically create
- **Regulatory Entrenchment** — So deeply embedded in compliance that switching is nearly impossible (think: banks, healthcare, government)
- **Integration Complexity** — So woven into a company's operations that ripping it out costs more than any AI savings
- **Human Accountability** — Decisions that legally require a human to be responsible (cybersecurity, compliance)
- **Direct AI Beneficiaries** — Companies that benefit when MORE people use AI (cloud providers, data centers)

✗ What Makes Software Vulnerable (LOSERS)

- **Workflow Automation** — If your software just automates a process that can be described in words, AI can probably do it
- **Outsourcing Replacements** — Companies that exist because outsourcing was cheaper than building in-house (AI changes this math)
- **Low Switching Costs** — If customers can easily switch to an AI alternative, they will—especially if it's cheaper
- **Per-Seat Pricing** — Business models that charge "per user" struggle when AI reduces the need for human users

✍ Framework Application Exercise

Pick a software company you know (maybe one you've heard of or whose products you use). Using the framework above, would you classify it as a potential "winner" or "loser"? Why?

Company: _____

Classification (circle one): WINNER / LOSER

Your reasoning:

The "Picks and Shovels" Analogy

The Gold Rush Lesson

During the California Gold Rush, the people who made the most money weren't the miners looking for gold—they were the ones selling picks, shovels, and supplies to the miners. The same principle applies to AI: instead of betting on which AI company "wins," consider investing in the **infrastructure** that ALL AI companies need (cloud computing, cybersecurity, data storage).

Reflection Question

What are some "picks and shovels" of the AI era? (Think about what every AI company needs to operate)

THE WINNERS

Goldman Sachs' Buy List (26 Stocks)

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Complete "Buy" List: GSTMTSOL Basket

These are the 26 stocks Goldman Sachs identified as potential "winners" in the AI era. Remember: this is Goldman's analysis for informational purposes—always do your own research.

Company	Ticker	Why It's On the "Buy" List
Microsoft	MSFT	AI infrastructure leader, owns stake in OpenAI, Azure cloud
Alphabet (Google)	GOOGL	Multiple moats: Cloud, Gemini AI, YouTube
Oracle	ORCL	Enterprise infrastructure, \$523B backlog, AI cloud deals
CrowdStrike	CRWD	Cybersecurity—more AI means more attack surfaces
Palo Alto Networks	PANW	Cybersecurity—companies can't cut security budgets
Snowflake	SNOW	Data infrastructure—AI needs data to function
Palantir	PLTR	Government/defense contracts, regulatory entrenchment
Cloudflare	NET	Internet infrastructure—every AI app needs connectivity
Datadog	DDOG	Observability platform—AI systems need monitoring
Fortinet	FTNT	Cybersecurity
Zscaler	ZS	Cloud security
Okta	OKTA	Identity management—security critical
MongoDB	MDB	Database infrastructure
SentinelOne	S	Cybersecurity
Cadence Design	CDNS	Chip design software—physical execution required
Synopsys	SNPS	Chip design software
Akamai	AKAM	Content delivery infrastructure
CDW Corp	CDW	IT solutions provider
DigitalOcean	DOCN	Cloud infrastructure
Doximity	DOCS	Healthcare network—regulatory moat
Dynatrace	DT	Software intelligence platform
Nutanix	NTNX	Hybrid cloud infrastructure
RingCentral	RNG	Communications platform
Rubrik	RBRK	Data security
Teradata	TDC	Enterprise analytics

Company	Ticker	Why It's On the "Buy" List
Zoom	ZM	Communications infrastructure

 **Portfolio Audit Question**

Do you currently own any stocks from this "winners" list? If yes, list them below. Do you understand *why* Goldman considers them AI-resistant?

THE LOSERS

Goldman Sachs' Sell List (41 Stocks)

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Complete "Sell" List: GSTMTSOS Basket

These are stocks Goldman identified as potentially vulnerable to AI disruption. This doesn't mean they'll all fail—some may adapt successfully. But Goldman sees elevated risk.

Company	Ticker	Vulnerability Factor
Salesforce	CRM	CRM software—"seat compression" risk from AI
Intuit	INTU	Tax/accounting (TurboTax, QuickBooks)—AI can do this
Workday	WDAY	HR/finance software—workflow automation
DocuSign	DOCU	E-signatures—commoditized, AI alternatives
Accenture	ACN	Consulting/outsourcing—AI replacement
Atlassian	TEAM	Project management—AI can manage projects
HubSpot	HUBS	Marketing automation—AI can write/manage campaigns
Monday.com	MNDY	Project management—needs AI pivot
UiPath	PATH	RPA—ironic, since AI does automation better
SAP	SAP	Enterprise software—complexity doesn't equal safety
Cognizant	CTSH	IT services—outsourcing
Genpact	G	Business process management
Globant	GLOB	IT services
DXC Technology	DXC	IT services
ExlService	EXLS	Business process outsourcing
Concentrix	CNXC	Customer experience—AI chatbots
Robert Half	RHI	Staffing—AI replacement threat
Gartner	IT	Research/consulting
Twilio	TWLO	Communications API
Dropbox	DBX	File storage—commoditized
GitLab	GTLB	DevOps—AI coding assistants
Elastic	ESTC	Search—AI alternatives emerging
Duolingo	DUOL	Language learning—AI tutors
Unity Software	U	Game engine
Paycom	PAYC	Payroll—seat compression

Company	Ticker	Vulnerability Factor
Paylocity	PCTY	HR/payroll
Bill Holdings	BILL	Financial automation
nCino	NCNO	Banking software
Veeva Systems	VEEV	Life sciences software
Guidewire	GWRE	Insurance software
Manhattan Associates	MANH	Supply chain software
Pegasystems	PEGA	Business process management
SS&C Technologies	SSNC	Financial services software
Amdocs	DOX	Telecom software—workflow automation
AppFolio	APPF	Property management software
AvePoint	AVPT	Data management
CCC Intelligent	CCC	Insurance software
Corpay	CPAY	Payment processing
DoubleVerify	DV	Ad verification
Samsara	IOT	IoT platform
SailPoint	SAIL	Identity governance

 **Risk Assessment Question**

Do you own any stocks from this list? If yes, write them below. Then ask yourself: Could this company successfully adapt to AI, or is its core business model threatened?

YOUR ACTION PLAN

Putting This Knowledge to Work

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The 3-Step Portfolio Framework

Step 1: Audit Your Portfolio

Look at every software-related stock you own. For each one, ask: Does this company have physical execution requirements, regulatory moats, or deep integration complexity? Or does it just automate workflows that AI can do?

Step 2: Understand the Business Model

Does the company charge "per seat" or "per user"? If AI reduces the need for human workers, that's a potential problem. Look for companies that benefit from MORE AI usage, not less.

Step 3: Follow the Infrastructure

The safest software investments may be infrastructure plays: cloud computing, cybersecurity, data management. These are the "picks and shovels" of the AI gold rush.

Your Personal Checklist

- I have identified all software stocks in my portfolio
- I understand which of my holdings might be AI-vulnerable
- I have reviewed each company's business model (how they make money)
- I know whether my holdings are "infrastructure" or "workflow" companies
- I have a plan to do more research before making any changes
- I understand that all investing involves risk and I should consult professionals






Final Reflection

Based on what you've learned, what is ONE action you will take to further research your portfolio?

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