

Fresh Invest S4E6: AI's boom and bloom

Episode Description: The AI boom has raised countless questions, concerns, and possibilities. We explore how AI is impacting the economy and how investors can navigate these changes.

Alex Lieberman:

What's up everyone? I'm Alex Lieberman, co-founder and executive chairman of Morning Brew. Welcome to season four of Fresh Invest, the podcast where we explore all things in investing sponsored by Fidelity Investments and powered by Morning Brew. This time around we are exploring strategies and tips to help you invest wisely wherever you are in life. With help from our friends at Fidelity, we'll dive into the investing lifecycle in the context of today's market landscape, emerging trends, and long-term wealth building strategies. Let's get into it.

Last week we broke down ways to live off your investment earnings and we covered calculating how much you'll need to save to retire comfortably, how to manage passive income and much more. This week we're changing gears. We are going to talk about one of the busiest topics out there, generative AI, those two words can bring up all kinds of feelings. They can be intriguing, concerning, and exciting at the same time. And for investors, they spark a lot of questions about how this tech will impact portfolios. Today, we'll take a look at AI from a business and economic perspective with Lubna Lundy, Director of Investment Product at Fidelity. We'll discuss opportunities that might be born out of the AI boom and how investors can evaluate them. Then next week we'll continue the AI conversation and focus on how it's impacting the investing experience and how you can leverage AI enabled tools in your investing journey. All right, let's get into it. Lubna, welcome back.

Lubna Lundy:

Yes, thank you. I'm happy to be here.

Alex Lieberman:

You're here season three, back for season four and back in the flesh. Last time it was over Zoom.

Lubna Lundy:

Yes.

Alex Lieberman:

Before we hop into the conversation, can you just introduce yourself for the crowd?

Lubna Lundy:

Yeah, sure. So I am Lubna Lundy. I'm a director of investment product at Fidelity. I work in our asset management division in the investment product group, and I cover thematic investing strategy. So I get to work with our investment teams, the portfolio managers, the research analysts, also data scientists, quants, a number of people to keep a pulse on what the emerging themes are, what themes may be moving out of favor, all with the goal to create investment products for investors to invest in the future through thematic investing. And I'm also very active on social media, so follow me if you can.

Alex Lieberman:

Love it. Love the plug.

Lubna Lundy:

Yeah, I post a lot of behind the scenes industry content, fun videos, and also thought leadership from a lot of our great research experts. And we've been posting a lot about AI and disruption and ETFs and so I'm really happy to have this conversation. Perfect.

Alex Lieberman:

Perfect. Well, we're going to be talking about AI today, so if you like what you hear, make sure to check out what Lubna and her team are creating on social. We're going to start high level and then get more micro. Let's talk about the economic impact of AI. There's a lot of different estimates out there, but I saw basically that from Goldman Sachs's perspective, they estimate a 7% increase in GDP, meaning trillions of dollars of added value to GDP. For investors who are trying to think about from a wealth building and macroeconomic perspective, how should they think about this tectonic shift that is happening with AI? What would you say?

Lubna Lundy:

Let's jump right into it, Alex. Thank you for that easy starter question.

Alex Lieberman:

Layoffs. That's we're about, layoffs.

Lubna Lundy:

Yes. There've been a ton of estimates published. One I saw recently was from McKinsey. They actually estimated or anticipate that AI could add between two to 4 trillion to the global economy. And just for context, the GDP of the UK is a little over 3 trillion, so a huge potential impact, but it's still really early. So we usually shy away from these big estimates. But it does feel like we've seen this movie before. People have heard this comparison between AI, generative AI having this iPhone moment. A lot of people did not anticipate the trillion dollar economy that the iPhone would drive. And now with breakthroughs with large language models and generative AI, the thinking is it could also drive a significant economy. And we've seen this with a lot of tech revolutions from PCs, internet, mobile tech, cloud computing.

Now, AI, they all present these huge opportunities and also challenges across many industries with corresponding winners and losers across many asset types. We believe that the key is managing the shifting risks and identifying profitable opportunities across companies and sectors. With new tech there's always the fear of the unknown. Could AI write podcasts in the future? I don't know. I'd love to see how they come up with a podcast for this. But with emerging technology, there's also the chance and opportunity to drive new jobs and that's really important for long-term economic growth. So as you're evaluating different long-term diversified wealth building strategies, that's going to be really important to consider.

Alex Lieberman:

Totally. Well, we're going to talk in a few minutes about the impact of AI on jobs, but I think overall this is such a profound technology theme to talk about and think about because it really impacts every part of the economy. And so let's talk about how AI will increase productivity within the workplace, as you alluded to. How do shifts in what's going to happen in the workplace as a function of AI, how is that going to impact how investors should be thinking about their portfolio?

Lubna Lundy:

Yeah, what's funny is a lot of investors don't realize AI is already starting to impact investment portfolios.

Alex Lieberman:

In what sense?

Lubna Lundy:

Funny story. So I started an asset management investment product and I set up time with all of the investment teams folks. I knew I was going to have to work closely with portfolio managers, research analysts, and I was asked to then set up time with quants, data scientists, people in our then artificial intelligence or AI center of excellence. And I was kind of scratching my head because I was like, I didn't have an appreciation or an awareness of how much AI would impact the investment product development process for certain strategies. And so six ETF launches later, now it makes a ton of sense. We use natural language processing or NLP for short. It's a subset of AI and it allows big asset management firms like Fidelity. It allows us to use text-based documents for companies to identify companies that may align with themes and strategies.

So really a way to more efficiently create investment products. So you have more investment management firms that are using NLP for product development. And when you think about it, so much of investing is how do you capitalize on data and information in addition to macro or market inefficiencies. And so with AI, we're starting to see how you can do that more. Have you heard of the Fidelity Center of Applied Technology?

Alex Lieberman:

I have not.

Lubna Lundy:

So they're called FCAT for short. They're like our in-house innovation lab. They track emerging technology trends and they have an AI incubator and they built using generative AI and advisor assistant tool to just test out how it could potentially impact how advisors manage client portfolios and client data.

And they actually demoed it to a set of clients during a Fidelity institutional conference, which was really cool. So now is every firm and sector starting to apply AI to increase productivity at this point right now? No. So as investors, it's going to be really important for them to understand what are the companies that are adopting AI, what are the sectors that are adopting it? The adoption curve is going to be different across different sectors. If you're passionate about AI and technology, I'm sure you're watching how it evolves over time and that's going to be helpful in managing your portfolio.

Alex Lieberman:

Yeah, I mean, the way I think about it's with any large technological change, there's going to be a lot of noise inherently because anytime there's a big tectonic shift and especially a lot of money from just the private investing community going into a space, there are going to be some people who are in it for short-term gains. But I do think there's really interesting things happening, and at least my perspective is I'm trying a lot of different things to see what is actually game changing for me.

It's funny you mentioned that the tool that Fidelity has worked on to assist financial advisors because a friend of mine is working on basically an automated app that let's say someone wants to go on vacation a year from now and they put in a budget for that vacation. The idea would be that not only is an itinerary creative for them, but actually an automated amount of money is taken out of their paycheck to be put in a vacation fund every month. So I think it's really interesting in the sense of where long-term memory of an individual's personal preferences and data can be used to help drive actions in the future.

Lubna Lundy:

Absolutely.

Alex Lieberman:

I want to talk now more about the labor market because we talked about how AI can be a huge boost to productivity acting as kind of an assistant to professionals, but I think with any technological wave, people worry about is this going to be the end of my job? You were joking about the podcast, but honestly one day you may not need me here. And so AI is for sure projected to have a significant impact on the labor market. Like you said, it's going to create jobs, but there's also going to be jobs that unfortunately are either partially or entirely removed from this technology. There's a whole conversation that can be had around that. But from an investor's perspective, how should an investor be thinking about what AI as a technology is going to do to the overall labor market?

Lubna Lundy:

And I know we went macro initially, and I love plugging our research experts at Fidelity. When we think about it from a macro lens, we have an asset allocation research team and they cover macroeconomic trends. They publish thought leadership paper for our clients to leverage to help manage their portfolios. And one of the recent papers, they talked about this shifting dynamics between profits and productivity. Historically, for companies as profits group, so did productivity, but over the last decade or two, productivity has slowed down, more specifically labor productivity in the world and in the US.

And so there's been this divergence between profits and productivity over the last two decades. But they believe with AI, with automation, just overall technological innovation, there's going to be potentially a boost to productivity in the future that we could look for. So absolutely, yes, there are going to be shifts as it relates to jobs. Most jobs, many jobs are partially exposed to automation in some form or fashion. I talked about McKinsey, I'll bring them up again. They projected that automation could potentially impact employees. The work activity that consumes 60% to 70% of employees time can be replaced with automation, which is very significant.

Alex Lieberman:

Totally.

Lubna Lundy:

But I'm a glass half full kind of person. I'm kind of looking forward to-

Alex Lieberman:

I view that as exciting.

Lubna Lundy:

... to more productivity-

Alex Lieberman:

Yeah, totally.

Lubna Lundy:

... more efficiency, the potential to remove potential risks and current processes. I'm also looking forward to, you talked about your friend's tool. I'm looking forward to some of these other tools, these AI assistant tools that are in the process of launching or may have already launched that boast capabilities from taking ideas and creating a PowerPoint presentation based off those ideas or summarizing key points from a video call after you hang up. I work remote like I talked to you about, and-

Alex Lieberman:

I think it's awesome.

Lubna Lundy:

... I would love that.

Alex Lieberman:

Totally.

Lubna Lundy:

Summarizing Excel data. So a lot of different things for us to look forward to. Going back to the investment aspect, it's going to be important for investors to know what companies are prioritizing education and training for AI. They may be more resilient in the long run. They even may be better employers and better investment opportunities. When you think about it, a lot of investors are active members of the workforce just like us. So there's a couple of different ways they can look at how AI is going to impact the labor force, but it's really early, so we have to see how it plays out in the long run.

Alex Lieberman:

Yeah. And I do think there's general consensus that when you look at large technological shifts, whether it was the internet, whether it was the mobile phone, they ended up being, when you look back in history, they ended up being net positives for the economy and for the labor force. And I even think about it as an entrepreneur, something that AI is going to do is it's going to make it even easier than it already is to go from having an idea for a business to launching a business. Like you were talking about a few tools and a few examples. One that I know exists now and I've tested out is the idea of putting in a little bit of information about your business, like your business's name, what you do, your unique differentiators and maybe your logo and a few assets. And within 30 seconds, a full website is spun up for you.

And I think we've seen this proliferation of entrepreneurship and startups and small businesses in the US as a function of the internet because the cost of starting a business is very different today than 15 years ago when you had to buy and rack your own server for \$50,000 to start a software company. And so I

think bringing it back to glass half full, a really exciting thing for people to think about is how maybe there's going to even be more of a renaissance of new businesses to be found because the cost of failure, the cost of creating one is lower than ever.

Lubna Lundy:

Isn't that amazing?

Alex Lieberman:

I want to talk about kind of another phenomena that happens anytime there's a large technological shift. We saw this with crypto, we saw this during kind the GameStop and Wall Street bets bonanza, where anytime some large shift enters the zeitgeist. So I would say the shift with the whole GameStop thing was like the rise of the retail investor. With crypto it was this supposedly breakthrough innovation that was going to change society. AI is kind of another example of that. Anytime that happens, I think it creates a wedge and an entry point for new people to get involved in investing. I think that's really exciting because I think it forces hopefully a level of thoughtfulness and knowledge around investing, which is important for all of us, but I think also can be really daunting and also it can lead to bad decisions if people don't do the right amount of preparation and research. So for people who are starting to get their feet wet and investing and specifically thinking about investing in AI, what would you say to them?

Lubna Lundy:

Well, I love analogies, so I love the picks and shovels analogy for the gold rush. While everyone wasn't guaranteed that they were going to find gold, everyone had to have a pick and shovel to at least try. And that's what made the picks and shovels an attractive investment opportunity. For the AI bloom, if you will, it's going to be important for investors to think about who are the enablers, what are the companies that are enabling AI? They're providing the hardware, the equipment semiconductor just like Nvidia.

Also, what are the companies that have access to large data sets? When you talk about artificial intelligence, so much of it is data, having access to data and even more important, what companies may have access to their own proprietary data sets that might offer them a more competitive advantage as well. At the same time, you also want to be aware of what companies may be at risk of being disrupted, what companies may offer a service that could be commoditized, whether we're talking about a chat-based customer service solution or freelance logo designs, or you talk about website building and just what you can build for different companies.

So you want to be aware of that. But we also like to tell investors, you don't have to become a stock picker. You can leverage and rely on Fidelity's global research team. You have folks that are dedicated to identifying big themes like AI, identifying companies, disruptive companies that are driving the theme forward, and then also charting the progress over time. As an individual investor, you may not have the time to track a company up and down, especially newer companies that may not have that much information available. And so if you don't have the time, the will or skill, you can absolutely leverage research experts.

You can also think about investing in mutual funds or ETFs where you can invest in multiple companies and get exposure to themes like AI while also leveraging the expertise of our research professionals that will do the homework for you per se. We like to stress those things. Would also say it would behoove investors to take a look at your current portfolio and see how much exposure to disruptive tech you

already have because we like to remind folks disruptive tech, it can be volatile. And so you always want to think about how much risk you are willing to take on as you think about your investment exposure.

Alex Lieberman:

Love it. There's this concept that I read about recently and I can't stop thinking about it. It's this idea of Edge City and the idea of Edge City is that people who build really interesting companies or invest in really interesting things are people who live in Edge City. And Edge City is this idea of spending your time psychologically on the edges of technology, meaning you are learning about things that the mainstream will be talking about three years from now. And so I'd be remiss to not ask you about just opportunities and trends within AI that could get me closer to Edge City. You work in thematic investing, we spent last season most of our conversation talking about thematic and you specifically look at disruptive companies and technologies. And so I'd love to hear your perspective on trends or opportunities that you're seeing specifically within disruptive AI.

Lubna Lundy:

Yeah. How much time do we have?

Alex Lieberman:

As long as you need.

Lubna Lundy:

No, but I'm loving how AI is manifesting itself in my daily life from all of my personal online purchases that AI tells me to buy to like I talked about my professional life and with using or leveraging AI for investment product development. But when you think about it, AI, it's really become table stakes for innovation and disruption. And so we do have disruptive ETF strategies that give you some exposure to AI and they focus on disruption in five key areas that include medicine, technology, automation, communications and finance. And like I said, AI shows up in some form or fashion in all of these strategies. And for example, disruptive medicine, you may have heard of precision medicine. So we're now harnessing big data to come up with custom treatments for illnesses like cancer, moving from this one as fits all every treatment to now having more customized medical solutions because of AI and big data.

Alex Lieberman:

And it makes so much sense. I feel like 20 years from now we're going to look back and be like, "Wait, we treated everyone the exact same way. Where do we do that in any other part of society?"

Lubna Lundy:

Yeah. So many advances being made that it's just amazing to see. When we think about disruption in communications or AI related disruptions there, think about how often Netflix tells you what you want to watch and sometimes they're wrong, but a lot of times they're spot on to be honest.

Alex Lieberman:

Totally. They know what we like.

Lubna Lundy:

But we know behind the scenes that's really Netflix's algorithm curating the recommendations.

Alex Lieberman:

Same thing with Amazon. Yeah.

Lubna Lundy:

Yeah. And because I mentioned Netflix, I think we have to talk about digital infrastructure. Do you remember when it used to take hours to download a Netflix movie?

Alex Lieberman:

Yes.

Lubna Lundy:

And now you can do it in seconds.

Alex Lieberman:

Yep.

Lubna Lundy:

That's the difference between a 3G network and a 5G network. And so when it comes to AI, digital infrastructure is so critical. AI becomes more powerful with better digital infrastructure, cloud computing, a lot of companies are moving data to the cloud. Cloud computing is one of the fastest growing areas of technology according to IDC and with cloud computing and AI, there's this symbiotic relationship when it comes to automation and a lot more physical tasks are being automated. So we can go on and on, but we're seeing lots of disruption from marketing, content creation, robotics, automation, of course, last time we chatted, we talked a little bit about alternative food sources and crickets, right?

Alex Lieberman:

Yes, we did. Yes we did. I still haven't eaten a cricket.

Lubna Lundy:

In addition to precision agriculture, that's the thing, because of the issues with food scarcity, the arable land that we have to farm on, it's declined by 50% over the last couple of decades. So lots of ways we're seeing AI drive disruption.

Alex Lieberman:

Totally. Again, it's super exciting for people to think about AI, think about the possibility of AI, think about as an investor, how do they get exposure to AI if they are bullish on just the impact it will have broadly on society? But also I think like any disruptive technology, it can be daunting. There's very clear risks and costs associated with just getting involved or investing in the space. So how would you distinguish, let's call it the green flags and the red flags of getting involved in disruptive technology or space like AI?

Lubna Lundy:

By nature, disruptive themes, they challenge the status quo. They include companies that have different unique business models that are delivering new solutions in innovative ways. And so yes, just investing in disruption, it may be more volatile. The companies may be inherently riskier. And so you think about examples of disruption too from over the last decade or so. Could we fathom the idea that people would spend money or pay other people to stay at their house instead of staying at a hotel for vacation?

Alex Lieberman:

Yeah. So in the same way that having a stranger drive you is the status quo.

Lubna Lundy:

Exactly, exactly the same thing, the same concept of rideshare application, but very different unique models that ended up being successful. And so we like that. What are the companies that are delivering solutions that are completely different? No one else is doing it, but better yet they're driving revenue or increasing the percentage of revenue growth for that overall company. We talked about it a little bit in the other question in terms of what potential red flags. You want to make sure that that disruptive solution isn't easily at risk of being disrupted because that is a thing, but that's easier said than done. We also talked about investors don't have to be stock pickers. With our disruptive strategies, we have research experts that are identifying disruption, disruptive companies. They're assigning them disruptive scores. They're looking at the fundamentals. How is the management team? What does the balance sheet look like?

What's the company's strategic vision? They're factoring all of that into whether or not they include these companies in our disruptive strategies. And we talked about risk. They are monitoring risk over time. They meet on a quarterly basis, identify new companies that we can add to the strategy, companies we may think about removing, and we also have a quant portfolio manager that has this ability to systematically adjust risk and manages the risk and volatility over time. So I keep stressing because I think I want investors to know that you have other ways that you can think about getting exposure outside of becoming a stock picker on your own. You can leverage strategies.

Alex Lieberman:

Which is not realistic for most people.

Lubna Lundy:

Exactly. Leverage active management, especially if you're looking to get disruptive exposure in your portfolio.

Alex Lieberman:

We started macro, and I want to finish macro. I think one of the great things about reading biographies or reading historical nonfiction is you can learn a lot of lessons that while not exact predictors of the future are pretty good at giving you certain models and ways of thinking about the world. So let's talk about AI right now, but in thinking about historically what's happened about with disruptive technology and specifically the advent of the internet and the dot com bubble, is there anything we can learn from historical moments like that that you think will give investors a clearer picture for how to think about AI right now as well as just overall the theme moving forward?

Lubna Lundy:

Yeah, I think the dot com bubble, there were some things that we could learn from that, and for folks that may not be aware of what that was, it was a time when there was of course this rapid rise in US tech stock valuations that were fueled by investments in internet or dot com based companies. The NASDAQ went from like 1,000 to 5,000 in a short amount of time, but you had a lot of these startup dot com companies that didn't really have track records of success. In some instances, companies were just slapping dot com at the end of the company name in hopes of attracting investments. And so you did have companies that failed, but you also had winners that came out of the dot com bubble, winners like Amazon. Amazon, they started out as an online bookstore and they continued to focus on innovation and expansion, and they saw their stock price go from less than \$10 to over \$100 before the crash.

And fast-forward to 2022, the stock price was well over \$2,700. So just truly an example of how companies can innovate and grow through different market cycles. We like to say constant innovation is the new normal, which is great, but for new investors, that can be scary, especially if you haven't been through a recession or a downturn. And we know the cyclical natures of the market. We know that there are going to be recessions and downturns. They last on average about nine months, and then they're usually followed by periods of economic expansion that is usually double or triple that nine months and not just, but we came out of a period, one of the longest periods of expansion from 2009 to 2020.

So just as you think about your long-term strategy, you have to factor in time horizon, that's going to be critical. You want to think about your risk tolerance as you think about how you want to get exposure to disruptive tech in your investment mix. And if there's anything folks remember from this chat, I am going to stress one more time, you can absolutely leverage active managers, especially to help navigate long-term disruptive tech exposure.

Alex Lieberman:

Well, I think just to add onto that, like you said, most people don't have the time in their day to be researching single name companies or spending every hour of every day studying AI and the impact on the economy. People have full-time jobs that they're working in and-

Lubna Lundy:

That may be impacted by it.

Alex Lieberman:

Yeah, exactly. Hopefully in a good way.

Lubna Lundy:

Yeah. Right.

Alex Lieberman:

And you give the example of Amazon, but it's also, it's like revisionist history is so easy in the sense of for every Amazon, there were 10 pets.com. And so for someone who's not spending all of their time to try and figure out who is that next Amazon is a pretty daunting task and probably a low probability task. And so to your point, leaning on experts, leaning on active managers, getting broad exposure to the industry is something people should probably really consider.

Lubna Lundy:

Absolutely.

Alex Lieberman:

Well, Lubna, it was such a good conversation with you. Thank you for being back on the show and hope to have you next season as well.

Lubna Lundy:

Yes. Thank you for having me back.

Alex Lieberman:

This was great.

Thank you for tuning into Fresh Invests today. I hope you all feel like you have a stronger understanding of the AI boom and what it could mean for your portfolio, and hopefully you feel more confident to navigate the changes that AI is inevitably bringing to the markets. It's an interesting time for AI because it's here and it's here to stay, but at the same time, many of the anticipated changes aren't quite a reality yet. And since all this comes at a time of massive economic volatility, it'll be interesting to see the response and sentiment from investors as developments unfold. Thanks again for listening, and join us next week when we'll continue the AI conversation by exploring how this tech is changing the investing experience. We'll talk all about AI-based investing tools and how you can leverage their capabilities. It's an interesting look at AI's role in how we invest. So stay tuned and I'll see you next episode.

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