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So Your Clients Want to Invest in AI?

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Here's What to Know

By Beth Braverman

O Analysis

words.

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What You Need to Know

- Artificial intelligence is a potentially transformative technology, but it's a very young industry. • Like the dot-com bust, many promising young startups won't have what it takes to survive as the industry matures.
- Investors should also be watching companies whose business models will likely benefit from advances in AI technology.
- intelligence (AI) for years, the introduction of the consumer-facing ChatGPT has prompted far more interest among the broader public — including investors. "ChatGPT really struck a chord with the public because it was usable and intriguing in

hile the tech industry has been excited about innovations in artificial

a way that was novel and new," says Ryan Jacob, portfolio manager of the **Jacob** Internet Fund.

But while it's clear that AI applications have the potential to **drastically accelerate**

the pace of technological change and disruption in many industries, the best way to invest in the burgeoning AI industry is more nuanced. If your clients are asking about investing in AI, here's what you need to know to

respond intelligently. Could your firm use technology **% Fidelity**

Artificial intelligence uses computing power to simulate human thinking to solve

Artificial Intelligence: An Overview

problems or complete tasks. ChatGPT is a form of "generative AI," which means that it not only analyzes data but uses its predictions about that data to "generate" something. In this case, it uses AI to answer questions using data gleaned from millions of pages on the internet. It does not actually "know" anything, but it can predict the answers to questions using its understanding of the relationships between

However, there are many other use cases for AI and deep learning models beyond simple, text-based responses. Al is part of the technology powering innovation in selfdriving cars and cloud computing, and machine learning could be used for everything from physicians looking for assistance with a patient diagnosis or treatment plan to uncovering cost savings at a manufacturing plant.

"Four or five years ago, artificial intelligence was seen more of a niche or thematic investment," says Mike Loukas, principal and chief executive officer of TrueMark

Fidelity

everyday lives. As it becomes a more useful tool for businesses, I think the B2B application is going to become a more important component of investment portfolios." Is AI a Good Investment?

Investments. "Now it's permeating so many levels of business and society and our

Artificial intelligence has the potential to be a good investment, but it's important to understand that it's a very young industry. For that reason, it's difficult to determine with much certainty which stocks might benefit the most from AI capabilities.

Could your firm use technology

That said, most large tech companies Key Terms to Know are investing in AI, seeing dominance For a deeper look at AI terminology, check out the

chatbots.

Artificial Intelligence Glossary, compiled by

Conversational AI: Technologies that use large

language processing to allow users to "talk to" the

technology, by imitating human interaction through

recognizing text and speech inputs. Conversational

Generative Al: A category of Al systems, including

large language models, that can independently

create unique, novel content, in the form of text,

images, audio and more, based on the data they

GPT: Generative Pre-trained Transformer; the prefix

from the company OpenAI. For example, GPT-3 is the

third generation of GPT models. GPT-1 was released

in June 2018. GPT-2 was released in February 2019.

GPT-3 was released in June 2020. GPT-3.5 was

released in March 2022, with underlying models

rolled out over the year. GPT-5 was released on

Machine Learning: A broad branch of Al

concerned with "teaching" AI systems to perform

tasks, understand concepts or solve problems in a

gradually becoming more accurate as it is trained on

Robotic Process Automation (RPA): A form of

software robotics, that allows humans to define a set

of instructions for the performance of high-volume,

While RPA technology shares similarities with AI, it is

repetitive human tasks quickly and without error.

business process automation, also known as

way that imitates intelligent human behavior,

March 14, 2023.

more data.

not a form of Al.

to various generations of large language models

have previously been trained on.

Al serves as the synthetic "brain" behind some

volumes of data, machine learning and natural

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in the category as key to maintaining a competitive advantage. The challenge for investors, of course, is determining which companies will gain (or lose) the most as Al matures. Why Is AI So Hot

Right Now? The introduction of ChatGPT to the public on Nov. 30, 2022, sparked a rise

of interest in Al. But the increased

interest may also reflect ongoing volatility in the tech markets, which has many investors looking for the next big innovation that will drive growth in the sector. Microsoft invested \$1 billion in OpenAI, the creator of ChatGPT, in 2019 and is also **heavily investing** in

building AI capabilities and tools into its Bing search engine. And while Google's AI tool, Bard, has gotten off to a more rocky start after generating incorrect answers in a demo, the search giant's focus on AI illustrates the importance of the technology. What Is the Future of AI?

As more consumers and businesses

transact online, there are increasing opportunities to incorporate the technology into our everyday lives. Some 44% of businesses are currently working to incorporate AI into their existing applications and processes, according to the 2022 IBM Global AI **Adoption Index.** As the use cases for artificial intelligence continue to expand, the technology itself will improve as well. While ChatGPT, Bard and others right now are prone to factual

from advances in AI technology.

Al companies.

Email Address: *

part of the challenge."

intelligence analysis firm.

"ChatGPT is just one manifestation of artificial intelligence, but it has the cool factor," Loukas says. "But when you start looking at investments, you have to separate the buzz from the business model." What Are Some AI Companies to Invest In? Investing in AI can take a lot of different forms, some more direct than others. In addition to focusing on companies building AI, investors might consider allocating to

errors, it's likely that developers will find ways to make the technology more reliable.

Loukas says, noting that AI needs all three in order to continue to grow. To that end, Jacob says that he's looking at companies like Cloudflare, which specializes in edge computing, and MongoDB, a developer database platform, and companies in the Internet of Things (IoT) space as having more upside than pure-play

companies that may not be Al-centric but whose business models will likely benefit

Other ways to invest in the coming AI boom include via adjacent industries, such as

companies that specialize in cybersecurity, data processing or chip manufacturing,

Companies Leading the Way in AI Right Now There aren't many public companies focused exclusively on artificial intelligence, but investment in any of the largest technology companies right now is a bet on Al. In

addition to Microsoft and Google, companies like Amazon, Apple and IBM are all working hard to improve their proprietary AI technology and put it to use improving their products and services. Get deep insight into the innovations sweeping the industry with our Tech Reporter newsletter.

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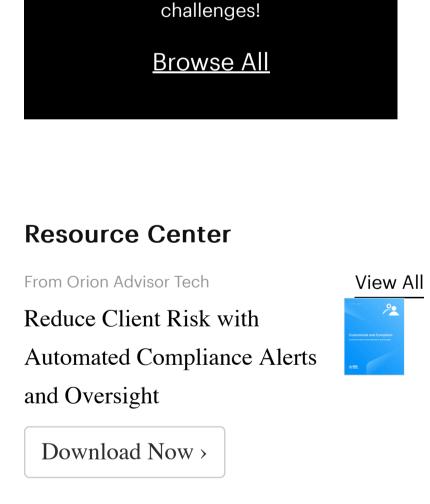
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Irrational Behavior Download Now > intellectual property or tech that could bolster their business. Large companies also have the human capital and deep pockets necessary to quickly scale the technology. Investors more interested in small- and mid-cap AI stocks might take a look at companies like C3.ai, an enterprise AI development platform; or BigBear.ai, an

"Really, any major internet company has put resources behind this, and that's where

the most innovation is happening," Jacob says. "But the question is how much is their

development of AI going to move the needle in terms of enhancing returns? That's

Despite the recent turmoil in the industry, such companies also remain flush with

cash and are likely to acquire startups if they believe that the smaller firms have

Electric and self-driving vehicles may also offer an opportunity for investors to bet on Al. Companies positioned at the intersection of those industries and Al include battery manufacturer SES AI and Argo AI, which builds the infrastructure necessary for self-driving cars. AI Startups to Watch For investors without deep tech expertise, it may be difficult to differentiate among

the many AI startups vying for space. Building AI is a cash-intensive business, so it's

likely that many startups will either simply go out of business or find themselves

acquired by larger firms. In addition, many AI startups are even open to retail investors. About a third of generative AI investments have not yet raised any equity funding, and more than half

AI ETFs For investors who want to maintain diversification while also investing in AI, exchange-traded funds (ETFs) may provide a solution. Experts warn investors to look

closely at AI-focused ETF funds to make sure they understand exactly what they're

buying. Some supposedly AI-focused funds may be more akin to rebranded tech

are still in Series A, according to an analysis by CBInsights. Retail investors can't

directly purchase OpenAI stock, for example, because it remains a private company.

funds. It's also important to understand how the manager has constructed the fund, and how its evaluating potential investments. Keep in mind that while there are plenty of ETFs that invest in AI, there are also a growing number of ETFs that use AI to help

As with any investment, it's important for investors to do their due diligence to make

sure they have researched a company and its competitors before purchasing shares

in it. As such, financial advisors should be prepared to field questions from clients in this regard. While it's not necessary to have the deepest understanding of the technology that powers AI, they should have a basic understanding of the business itself and how it

expensive, crowded and competitive space.

How to Start Investing in AI

construct portfolios in other sectors.

Joe Quinlan, managing director and head of Market Strategy for the Chief Investment Office at Bank of America Private Bank, likens the current investing environment to the early days of dotcom investing. Some young companies, such as Amazon, grew into powerhouses during that era, while many more perished in the subsequent bust.

"[There were] a lot of companies back then with no earnings and a great marketing

cusp of new innovation right now, and venture capitalists are throwing money at it.

story, but they never came out the other side," Quinlan says. "We know we are on the

plans to differentiate itself — and ultimately generate profits — in an extremely

That is how we create great companies, but if you see a great story with no earnings, be careful." Quinlan says that while the pace of innovation is fast, it also may not be as fast as

"We are accelerating," he explains. "But we are talking years, not quarters."

some investors expect when it comes to generating returns.

Investing in AI? When it comes to talking to your clients about investing in AI, it's important to help them understand that, while this is a potentially transformative technology, the

What Should Financial Advisors Know About

industry is also in its very early days. That said, there are many opportunities, especially for those willing to look beyond simple pure-play AI investments. (Image: peshkov/Adobe Stock)

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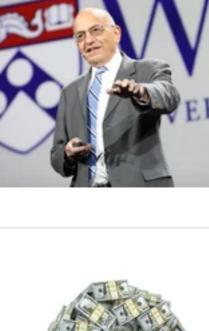
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