



Is the AI Revolution a Reason to Party Like It's 1999?

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The Key Wealth Institute is a team of highly experienced professionals from across wealth management, dedicated to delivering commentary and financial advice. From strategies to manage your wealth to the latest political and industry news, the Key Wealth Institute provides proactive insights to help grow your wealth.

There are similarities but there are differences too, and below we address several key questions regarding AI.

What Do People Mean by "AI"?

Recently, there has been an elevated amount of interest around generative Artificial Intelligence (AI). So much so that some refer to it as "AI euphoria." When people refer to AI, they often think of a computer system that mimics human-like cognitive capabilities including learning and problem-solving.

ChatGPT, the conversational AI chatbot, opened the world's eyes to the potential of the AI, and is one of the first models that became publicly available, allowing ordinary people to experiment with generative AI. Since launching in November 2022, ChatGPT has displayed the fastest rate of adoption of any technological innovation in recent memory and has gained acceptance as an interactive search engine, a tool to summarize content, compose emails, generate programming codes, and create applications.

According to ChatGPT itself, "As an AI language model, my biggest potential is to assist and provide accurate and helpful information to anyone. I am constantly learning and improving my abilities, so my potential to provide value to people will continue to grow in the future."

When Did AI First Come Into the Mainstream?

Artificial Intelligence has been around for decades. The first successful AI program was written in 1951 by Christopher Strachey at the University of Oxford. Since then, there have been many AI milestones such as IBM's Deep Blue beating a human at the game of chess in 1997 and Apple launching Siri in 2010. In 2017, AlphaZero, another AI computer program developed to master the games of chess, shogi, and go achieved a superhuman level of proficiency, played and defeated world-champion program Stockfish 8 after only a few hours of training. However, ChatGPT generated the most amount of interest in AI yet, reaching 100 million active users in just two months.

How Has AI Evolved Since Then, and Why Is It Generating so Much Interest Now?

AI is becoming increasingly prominent in our daily lives. Search engines such as Microsoft's Bing, Edge, and Google's Bard adopted AI to provide faster and more accurate information. The use of biometric payments such as Apple Wallet, Face ID, and others have become very popular, and personalized health and wellness wearable and non-wearable devices such as Google Health, Sentio Solutions, and Muse are increasingly gaining adoption. In short, AI offers the promise to improve quality of life and enhance efficiency for people and organizations alike.

What Are Some Possible Economic Benefits and Pitfalls Related to AI?

Observed economic benefits from AI acceptance by organizations include the potential for a reduction in costs, higher productivity, and increased revenue, as well as

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improvement in both job performance and satisfaction. AI helps automate repetitive tasks that can reduce costs, improve efficiency, and increase the quality of work. AI has also fueled innovation and helped to refine business models. There are many more AI products in development that are expected to provide benefits to both individuals and organizations. Many predict AI opportunities could grow in the trillions, increase GDP, and contribute to the global economy. Productivity gains could continue to drive AI adoption and create revenue growth opportunities. It is early days, so time will tell.

Pitfalls related to AI are reliability and accuracy of the information, biases, cost, privacy, security, and regulatory concerns. While AI services such as ChatGPT have been impressive with their ability to generate human-like responses, they are also known to make up facts and confidently present it as truth. Most AI models are also extremely expensive to develop and require extensive proprietary databases to be able to effectively train the models. The potential negative impacts on labor, national security, and education have become legitimate concerns surrounding the adoption of AI since the ChatGPT launch.

In our view, the excitement around AI is reasonable; however, it will continue to require human contribution of data and innovation. We believe that AI cannot replace humans but can certainly assist in decision making.

What's Happening with AI Stocks Today?

Investors become increasingly attracted to the AI stocks. The year-to-date returns of the main participants in the AI race have seen their stock prices skyrocket. This has caused other technology companies to enter the race to develop AI programs, or at least attempt to be perceived that way. AI technology has certainly been transformative and is promised to provide many positive long-term implications. The speed of AI adoption has been

impressive and should continue to persist as people experience more and more benefits, both tangible and intangible.

What Are the Parallels with the Dot-com Bubble Today vs. 1999, or Is Today More Akin to 1997?

There are parallels to both the run up to the "tech bubble" and the bubble period itself; however, there are also many differences. The Internet bubble was marked by extremes. The Fed was highly accommodative in the time period leading up to "Y2K," the much-discussed potential for severe computer issues at the turn of the millennium which never happened. This combined with the embrace of the "new paradigm" led to extreme investor behavior.

Many remember the IPO of a company with a sock puppet as its corporate mascot or analysts talking about "price-to-eyeballs" ratio. We do not see such speculative hallmarks today. Where we do see similarities is in the valuation metrics for key AI enablers.

During the Internet bubble, many highfliers traded at price-to-revenue multiples of 30x to 50x, or more. The market had no way to estimate the total addressable market (TAM) for these firms, so it assumed the total addressable market was something approaching infinity!

Obviously, in hindsight that was too optimistic, but hopes and dreams are powerful things in the hands of speculators, which can drive markets to irrational extremes. The current hype surrounding AI has driven a small cohort of stocks to high price-to-revenue multiples due to the "infinity TAM" problem, but the situation is nowhere as broad-based as the Internet bubble. It is early days, but selectivity and prudent portfolio management will remain paramount.

For more information, please contact your advisor.



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