

INVESTOR'S EDGE

How investors can get in on the AI boom

Large-cap technology stocks have the cash, expertise and infrastructure already in place to capitalize.



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Guest Columnist

"The real problem is not whether machines think but whether men do." – B. F. Skinner, behavioral psychologist

At the time of this writing, the S&P 500 Index is up around 10% year to date while the blue-chip Dow Jones Industrial Average is flat. The difference in returns is largely due to the powerful performance of six mega-cap tech stocks with a large representation in the S&P 500 Index.

These six stocks — Microsoft, Apple, Meta, Alphabet, Amazon and Nvidia — have one thing in common: they are dominant players in the emerging artificial intelligence realm that will indeed transform many parts of our lives.

So, just what is artificial intelligence (AI)?

In its simplest form, AI is automation of mundane tasks that computers can accomplish much more efficiently than humans.

You may not know it, but AI has already been part of our lives for several years. Your credit card companies use AI to detect fraud, Google and Amazon use it for targeted advertisements based on web activity, and Apple uses it to monitor your location and anticipate your travels.

Essentially, AI can analyze and act on large amounts of data almost instantaneously in order to make everyday life more productive and efficient. On a larger scale, think driverless cars, autonomous robots, precision medicine and a smart electrical grid.

Public interest in artificial intelligence exploded after the release of ChatGPT back in March.

This represents the latest generation of AI that goes even one step further because it's able to produce its own content without human intervention. This includes documents, images, videos, computer code and even original music and novels. Going forward this will have major implications in the areas of entertainment, engineering, health care and manufacturing.

Crazy!

As legendary investor Paul Tudor Jones stated: "Artificial intelligence is going to create a productivity boom that we have only seen a few times in the last 75 years." By automating routine tasks, AI can improve overall efficiency and increase output. This will lead to higher corporate profits, lower prices for consumers and a more robust economy overall.

As I mentioned at the beginning, the large-cap technology stocks are going to be in the middle of any AI-related boom. They have the cash, the expertise and the infrastructure already in place to capitalize. The following are the strongest leaders where I'd focus my bets.

Microsoft (MSFT): Microsoft is harnessing its capabilities across many of its core platforms and services including Cloud, Office 365 and web search. Microsoft is also a major investor in OpenAI, the company that developed ChatGPT. Microsoft has stated that its goal is to make core AI technology universally accessible to the consumer through its products.

Nvidia (NVDA): Nvidia is the world leader in artificial intelligence computing, manufacturing advanced semiconductor chips that are used to power a host of applications including smartphones, cloud computing, gaming, vehicles and robotics. The company recently announced a record quarter where it significantly raised its outlook and cited surging demand due to the emergence of AI.

Alphabet (GOOG): Alphabet, Google's parent company, is rapidly working to add artificial intelligence technology into its core products, primarily focused on advertising and cloud computing. Google believes its adoption of AI and bringing it to its customers will boost revenue, margins, and grow market share.

Instead of picking an individual stock, don't forget about the NASDAQ 100 ETF (QQQ) whose top holdings include Apple, Microsoft, Meta, Amazon, Nvidia, etc.

While AI is most common in the technology sector, you can invest in other areas of the economy, too. Intuitive Surgical (ISRG) is the world leader in robotic surgery. ISRG is pursuing AI to build the next generation of robotic surgery systems as well as give surgeons the tools to make better decisions for their patients. You might remember I recommended ISRG in March of 2018 and since then the stock has returned 112.8% vs. a 51.6% return for the S&P 500 Index.

Finally, Morgan Stanley (MS) is a global juggernaut in investment banking and wealth management. It is working to harness AI to help drive investment research, portfolio management and other financial planning decisions that will help better serve clients.

Anyone who has read about AI knows there are serious concerns regarding its potential displacement of workers in certain industries and the potential for the technology to be used for insidious ends.

My take is that proper leadership – from both the public and private sector – will be needed to ensure positive outcomes.

The rise of artificial intelligence (AI) is transforming various aspects of our lives, and its impact on the economy and its future cannot be ignored.

When it comes to picking winning investments in this emerging sphere, however, use some good ol' fashioned human intelligence. Invest in stocks with a powerful infrastructure already in place to capitalize and execute artificial intelligence at a high level.

Let's enjoy the summer!

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at jburns@jwburns.com

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