

Should you ask ChatGPT how to invest in AI? These fundies gave it 70pc

Lucy Dean *Wealth reporter*



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Ask ChatGPT how an Australian investor can gain exposure to AI, and it'll rattle off the usual suspects: ChatGPT creator Microsoft, Google parent Alphabet, the skyrocketing Nvidia [<https://www.afr.com/chanticleer/if-ai-is-a-bubble-then-this-stock-is-the-flag-bearer-20230525-p5db63>] and Intel.

Locally, ChatGPT says investors should consider BetaShares' robotics and AI ETF, software provider Elmo for its "AI-powered HR and payroll solutions", and data sourcing and preparation company Appen, due to its focus on "providing high-quality training data for machine learning and AI applications".



Datt Capital principal Emanuel Datt. **Tash Sorensen**

But according to Datt Capital principal Emanuel Datt, ChatGPT's answer is not quite right. He singles out Appen [<https://www.afr.com/technology/ai-hype-cannot-save-appen-from-the-latest-204m-hit-20230213-p5ck1g>] as a contentious inclusion.

“This company that ChatGPT's recommended has actually been disrupted by AI itself, but it's been put forward as an investment recommendation or suggestion,” he said.

“Appen can go out there and claim in its marketing materials that it's benefiting from the AI trend. But if you really dig down to the nitty-gritty of it, it's very hard to see that.”

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Appen, which historically used human workers to teach computers to recognise and label images and speech, laid the groundwork for future AI tools [<https://www.afr.com/technology/inside-appen-s-fell-from-grace-during-an-ai-boom-20230516-p5d8t6>].

“In many ways, a lot of their core business is being, I think, circumvented by these new technologies,” said Mr Datt. “I think the future is quite uncertain.”

He prefers to play the AI trend by focusing on companies that have both a technology infrastructure sophisticated enough to harness the power of AI, and an ability to scale their data collection.

“Many ASX tech companies over time have neglected to invest in ensuring their technology infrastructure is modern and contemporary,” he said. “But undertaking the analysis for AI to work correctly ... is computationally intensive. It really does require these modern technology stacks to function in the right way.”

‘Baby bubble’

Mr Datt pointed to computer component maker Nvidia, which reported earnings above expectations but sales down 13 per cent on the previous year.

The company’s shares spiked as much as 26 per cent in after-hours trade, leading Bank of America strategist Michael Hartnett to describe it as a symptom of a “baby bubble” in AI.

Mr Datt said the earnings were an upside surprise to investors, who had lower expectations due to a downturn in cryptocurrency mining, which also required significant computational power.

“I think AI is here to stay, irrespective of whether we like it or not,” he said. “Whether the efficiency of the models themselves can be improved is really the big question.

“Nvidia’s business is driven by the fact that these AI models do have inefficiencies, and I think the adoption rate of AI will rise, but the efficiency of these models will also rise over time. I expect there to be growth, but it’s not going to be hockey-stick growth.”

Mr Datt said global logistics company WiseTech was one company that had the attributes required to benefit from AI.

“Things like ports and shipping, it provides software for, so it really has that critical mass of data collection capabilities on a global scale,” he said.

“The real question is, how do you monetise that from here on? But that’s an example of a business that really does have the two very fundamental requirements to capture value from AI.”

‘The hype is real’

Nick Griffin, chief investment officer at Munro Partners, believes generative AI is the “killer app for AI” that will open up dozens of other applications, in the same way that the birth of the iPhone spawned an entire industry.

He described ChatGPT’s suggestions on where to invest to gain exposure to AI as “60-70 per cent of the answer”.

The rest of the work is the grunt work of the financial modelling required to actually ascertain an earnings trajectory.

“This is not a bubble, and the hype is real,” said Mr Griffin. “The simple way to think about this is that none of the *Australian Financial Review* readers ever went to a meeting in the Metaverse, right?

“None of us actually ever bought anything with cryptocurrency, yet every single person reading this article has used, or knows someone who has used, ChatGPT.”

Assuming that “millions” of applications will be built on top of generative AI tech, those applications will require computing power, so companies like Nvidia will benefit.

Microsoft, Google and Amazon would also benefit as cloud services providers, as all the applications being built would need to be hosted in the cloud, Mr Griffin said.

‘Reduce concentrated bets’

Cameron Gleeson, a senior investment strategist at BetaShares, said Nvidia’s results “crystallised” AI as the theme of the US earnings season, as investors were either rewarded or punished based on their exposure.

“As a result, the hyper focus on the innovative technology has helped cement the reputation of Microsoft, Alphabet, Meta and Amazon as quality names able to adapt their businesses in the face of a potential US recession,” he said.

However, Mr Gleeson said the surge in Nvidia’s price highlighted stock specific risk, warning that current leaders might not be able to maintain their head starts.

He pointed to Google losing US\$100 billion (\$153 billion) in market value when its Google Bard AI technology under-delivered upon release in February

[\[https://www.afr.com/technology/the-ai-wars-have-already-cost-google-us100b-20230209-p5cj7i\]](https://www.afr.com/technology/the-ai-wars-have-already-cost-google-us100b-20230209-p5cj7i).

“Investors might want to look to a well-constructed basket of stocks to help reduce concentrated bets on specific AI names,” he said.

He added that although Australia had a “smattering” of listed companies in AI, most leaders were on the Nasdaq or the Nikkei in Japan.

“While artificial intelligence is here to stay as a long-term megatrend, investors shouldn’t put their eggs all in one basket,” Mr Gleeson said. He advise that AI exposure should be considered a satellite element, rather than the core, of investors’ portfolios.

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Lucy Dean writes about wealth management, personal finance, lifestyle and leisure, based in The Australian Financial Review's Sydney newsroom. *Connect with Lucy on [Twitter](#). Email Lucy at l.dean@afr.com*