

AI: Key Insights for Investors

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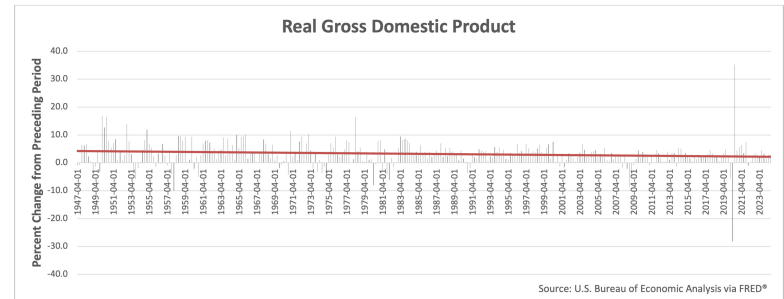
AI: PRESENT & FUTURE

The buzz surrounding artificial intelligence (AI) remains constant as it continues to take center stage in discussions across all industries, from tech conferences to coffee chats. Every day, media headlines prophesize AI's impact on every area of life: finance, healthcare, art, entertainment. In an effort to capitalize on the widespread attention, and in a fashion reminiscent of the .com boom, companies are rushing to incorporate AI into their branding, often exaggerating its capabilities. But what does all this excitement mean for investors? What areas should investors direct their focus toward, and what should they avoid?

GDP GROWTH

Let's start with the expected macroeconomic impact. You've probably heard optimistic predictions from economists regarding the impact AI will have on gross domestic product (GDP), such as this projection from Goldman Sachs: [AI may start to boost US GDP in 2027](#). However, I anticipate the net economic effect of AI will be minimal, as it will come at the expense of other business that may become obsolete.

Remember how investors expected personal computers, the Internet and social media to rapidly accelerate economic growth? The reality is GDP growth actually slowed. The growth trend (shown in the red line of the following chart) has been declining since the 1980s, predating the introduction of these innovations. The perception of increased GDP was fueled by the exponential growth of related businesses, **but it came at the cost of other enterprises**, as evidenced by how the Internet impacted brick and mortar stores. Ultimately, the net contribution to GDP was negligible.



RIGHT IMPACT, WRONG INVESTMENT

Undoubtedly, artificial intelligence is revolutionary and will have an immense, long-term impact on our lives. However, investors placing concentrated bets on the pioneers, at excessive valuations, may experience undesired outcomes. A crucial lesson for investors from past tech waves is the ultimate winners may not be the ones who started the trend.

If we look at the personal computer revolution, we recognize IBM, Compaq, Microsoft and Dell as the revolution's leaders; but only Microsoft was able to remain and thrive in the sector, and they did so by breaking into other areas of business.

Turning to the Internet revolution, Cisco, Nokia, Ericsson and others built and maintained the infrastructure by developing networking equipment, but none of them grew large enough to justify the price investors paid. **Ultimately, Amazon took advantage of the infrastructure others built, transforming the retailer into a \$2.5 trillion business.**

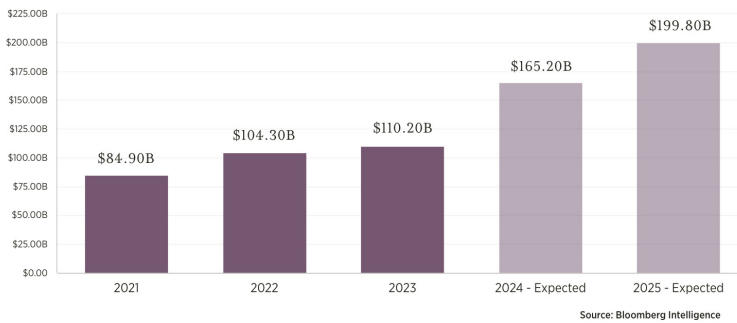
ARE WE AT THE TIPPING POINT?

The beginning stage of every new tech wave creates a gap between investors' growth and profit expectations, which are based on newly established infrastructure, and the actual growth in infrastructure use (the best indicator of potential).

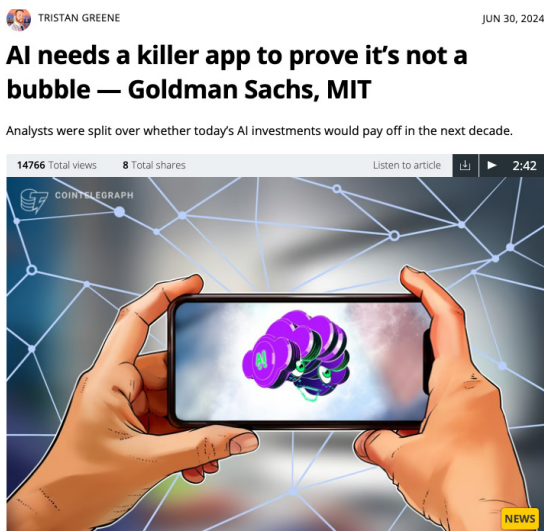
Looking at the rate of capital expenditures (CapEx) since the launch of ChatGPT, we see massive growth. According to S&P

Global, big tech companies significantly boosted their CapEx in the third quarter of 2024; and Bloomberg Intelligence recently predicted the majority of capital spending will go toward expanding AI infrastructure, including the creation and retrofitting of data centers and the purchasing of graphic processing units (GPUs).

Big Tech CapEx



However, monetization will take time and investors may need to adjust their expectations. The rapid creation and expansion of infrastructure is outpacing its full utilization, leading to concerns about an oversupply of GPUs and data center capacity. Many of the facilities that broke ground in 2023 and 2024 are expected to be operational in 2025, potentially exceeding immediate demand if the rate of AI adoption doesn't scale at the same explosive rate as infrastructure creation. **This disparity may cause a shock wave in valuations.**



Read the article [here](#).

ONE COMPANY'S RISK

The rapid evolution of AI technology is creating an interesting shift in the market, where the risk for one type of company presents an opportunity for others. As prices for AI computing rapidly decline, driven by the oversupply of GPUs and the completion of new data centers, revenues and margins may suffer. Nevertheless, this creates an opportunity for startups. As infrastructure becomes more affordable, startups (often constrained by costs) may benefit, leading to increased innovation and the introduction of fresh ideas, **beyond generative AI**, to the market.

For example, technology to optimize training in, and the usage of, large language models (LLMs) will reduce the need for GPUs; and the companies developing such technologies are the customers and consumers of the infrastructure that giants like Amazon, Nvidia and Google invested heavily to build.

For investors looking to capitalize on the AI revolution, it's important to build a diversified portfolio across the spectrum of AI enterprises - those building the infrastructure, and those leveraging it at its different stages of growth.

THE PRIVATE MARKET

The big difference, and a key challenge, for venture capital (VC) funds that pioneered previous tech waves, is the AI wave is led by tech titans such as Amazon, Meta, Google, Nvidia and Microsoft. These companies have immense capital, making it nearly impossible for VCs to compete. More importantly, they can provide non-monetary advantages like cloud credits, strategic partnerships and other incentives VC funds cannot match.

Valuations pose another obstacle. Tech giants are less sensitive to high valuations. Their objective is to obtain the best technology in order to secure capacity for new hardware and gain market share quickly. VC funds, on the other hand, struggle with low liquidity and exits. According

to PitchBook's Q3 2024 report, "US VC exit value in 2024 is on track for a staggering 86.2% decline from 2021's highs."

FURTHER EXPLORATION

As investors and VC funds look to capitalize on the AI revolution, I implore them to focus on the next "layer." LLMs and infrastructure are not the endgame; they are the beginning. **Smart investors should anticipate and focus on other important opportunities in the AI value chain.**

Here are a few areas I suggest investors explore:

- Fully autonomous AI systems: Vehicles or robotic systems that handle complex logistics and decision-making in unpredictable environments

- Physical world integration: Integration of the physical world with AI robotics and the Internet of Things (IoT), including smart factories that autonomously optimize manufacturing, quality control and logistics
- Scientific discovery: Leveraging AI to accelerate scientific breakthroughs by simulating experiments, analyzing vast datasets and predicting outcomes
- Environmental Cost: Addressing the growing computational and environmental costs of AI by creating energy-efficient models that require fewer resources without sacrificing performance

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