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PROVIDING PEACE OF MIND



Portfolio Management

Richard W. Boyer, CFP®, CFA

Laura Carley, CFP®, CFA

Cory Bloodgood, CFA

I'll Be Back

Forty years ago, Arnold Schwarzenegger starred in “The Terminator,” a movie about a cybernetic assassin who travels back in time to kill a woman whose son (yet to be born) will save the world from extinction . . . extinction from an Artificial Intelligence in a “post-apocalyptic world.”

What’s interesting (and a tad bit scary) is that the Terminator in that movie was traveling back from 2029. Just five years from now!!



Why is this even remotely relevant to us today? Artificial intelligence (known as AI) is now a reality. (Fortunately, time travel is still very much on the drawing board.)

The idea of AI has been around for a long time, but the physical stuff that makes computers work faster (processors, semiconductors, etc.) has only recently improved enough to bring it to life. That gobs of money have been thrown at AI projects hasn’t hurt.

Previously, computers could only perform functions based upon predefined rules programmed into the system – “if given this, then do that.” It could follow rules but never think for itself.

Today, computers aren’t changing their code to take over the world, but they are able to determine solutions to problems on their own.

Instead of “if given this, then do that,” scientists train the computers to process large amounts of data to learn patterns (which is kind of how our brains learn, too).

BCWM, LLC

14221 Metcalf Avenue

Suite 201

Overland Park, KS 66223

Phone: 913-685-2300

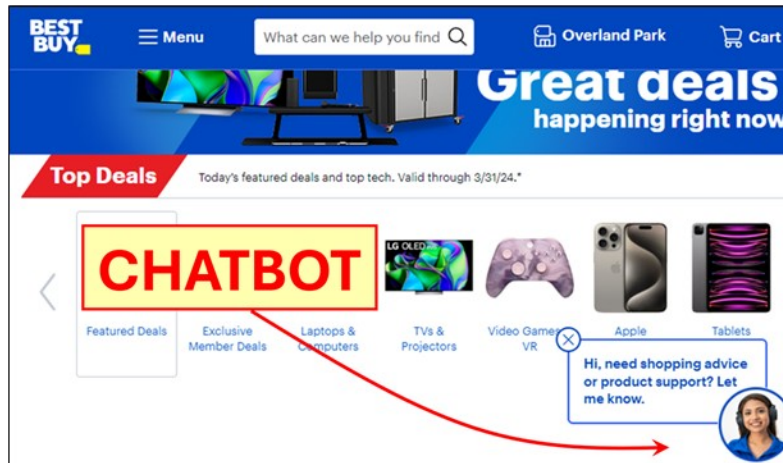
Email: info@bcwm.com



For example, a computer is shown millions and millions of pictures of different animals and their names and it ultimately recognizes that the animal with non-uniform black-and-white stripes is a zebra.

After successful training, you could show it a *new* picture of any animal and the AI program would correctly identify it. It doesn't know anything else about the world, only what it's been taught (animals). You could show it a picture of a football game and it would tell you that you're looking at a bunch of zebras and who knows what else.

But feed it a lot more information (every book ever written?) and pretty soon it is able to understand more intricate patterns – like human interests and how we speak to each other. If you recently chatted with a customer-service rep while shopping online, you most likely weren't speaking to a real person, but a chatbot.



These “robots” respond with answers as if they are a knowledgeable friend. AI is getting better and better . . . and it is being used all around us, making many common tasks faster and more efficient.

However, AI programs are often wrong, *confidently* wrong. It's not that big of a problem if an AI program screws up a term paper that a college student asked it to write. But what about a more serious setting?

IBM Watson is an AI program that bested the best on the TV gameshow “Jeopardy!” Then IBM tried to put the AI program to use speeding up cancer treatments, and Watson failed miserably – at one point recommending a medication that could have killed someone.

Needless to say, there is a lot of potential and hope for AI, but there is also a lot of hype.

For the last decade, renowned hype-man Elon Musk has [promised Tesla investors](#) fully self-driving cars in the near future. What the company has accomplished so far is pretty amazing, but the cars are still far from ready. That lack of speedy progress hasn't deterred Neuralink, another Musk company, from implanting a computer chip in [someone's brain](#) in an effort “to achieve a symbiosis with artificial intelligence.”

In an effort to get on board the hype train, companies will do anything to attach themselves to AI. Even if it is in name only. In the early days of the internet, countries and territories were assigned various domain names, such as “.uk” for the United Kingdom. The tiny, 35-square-mile Caribbean island of Anguilla was given “.ai” – and man are they happy about that. Last year, over 10% of the island's GDP came from selling website names at auction to companies wanting to market themselves with an AI label.





Just because a company has .ai in its website address doesn't mean it has anything to do with Artificial Intelligence . . . but it wants to make you *think* it does, because maybe you'll buy the company's stock.

This has obvious parallels to the turn of this century, when people were buying stocks with dot-com in their name . . . merely for that reason. That didn't end well.

Giddy investors would share investing successes at cocktail parties, talking about how much money they made just that afternoon.

We have told the story of an investor who, on a tip from a friend, purchased 1,000 shares of a "dot-com stock." One week later, he discovered he had incorrectly purchased the WRONG stock. He had purchased a company called Broadcom, but he was supposed to have purchased Broadcast DOT COM.

After discovering his error, he called to purchase the "correct" stock, only to find out that the "incorrect" stock had increased 50 points. Yes, he made \$50,000 in one week after buying the wrong stock.

That's stock market exuberance at its finest.

But the exuberance never lasts. When the party ended, the high-flying tech sector collapsed (the average tech stock declined 70%), and most investors lost a lot of money.

Why do we reminisce?

Well, sometimes it's nice to be reminded that just because something is increasing in price does not mean it SHOULD be increasing in price.

Sometimes investors are savvy, but many times they are just stupid . . . and can't get over the fact that the person they had drinks with the other night at that cocktail party made \$50,000 in just one week.

The dot-com era and most of the stocks associated with it was a game changer. Most of what we do today on our phones, watches, or tablets is a result of the innovations created during that period.



And the AI era and many of the stocks associated with it will probably be game changers, just like the internet was. And BCWM has already been investing, in a conservative and measured way, in companies that profit from AI.

However, just because the company is great doesn't mean its stock is selling at a great price.

If you purchased Cisco Systems, one of the darlings of the dot-com era (and still a great, profitable company) in March of 2000, you STILL haven't made money. Because you bought it at the wrong price.



At BCWM, we attempt to avoid the hoopla, the hysteria, and the hype. We are not willing to gamble with our clients' money by betting someone will pay us a higher price for an already overvalued company. Perhaps by 2029 our attitude will change. At that point, a) computers will have taken over or b) we'll be able to time travel to fix our mistakes.

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