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What Do I Need to Know About Investing in Artificial Intelligence?

AI stocks are garnering a lot of attention lately, and for good reason. In late 2022, the technology sector saw a breakthrough in large language models, allowing AI to learn and respond in conversational language. And in 2023, when Nvidia, which makes processors that power AI technology, delivered second-quarter sales drastically higher than expected, it unleashed a fervor of excitement. In the days after, mega-cap technology stocks rose sharply, pulling the entire S&P 500 Index upward. Since then, AI-related company stocks have seen huge gains, and some huge dips as well.

Although mass adoption is distant, AI has the potential to unlock productivity in a host of different industries, and companies across sectors are now investing heavily in related infrastructure. This means AI also has huge potential to generate wealth.

Despite this potential, it is important to remember that AI is still nascent technology, and investing will be risky. AI stocks are likely to be volatile, it will be difficult to predict winners and losers, and investors could lose everything.

That's why it's critical to do your due diligence. Make sure you or someone with AI-specific knowledge is vetting the opportunity set on your behalf, and never invest more than you can afford to lose.

If you do decide to invest in AI, consider a diversified approach: either a portfolio of AI stocks, a mutual fund, or an exchange-traded fund (ETF). These can offer better diversification than individual stocks alone.

As with any investment, risks abound, and AI strategies will not be right for everyone. A financial advisor can help you understand how AI investments may fit into the larger context of your investment portfolio and how much risk might be appropriate.

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