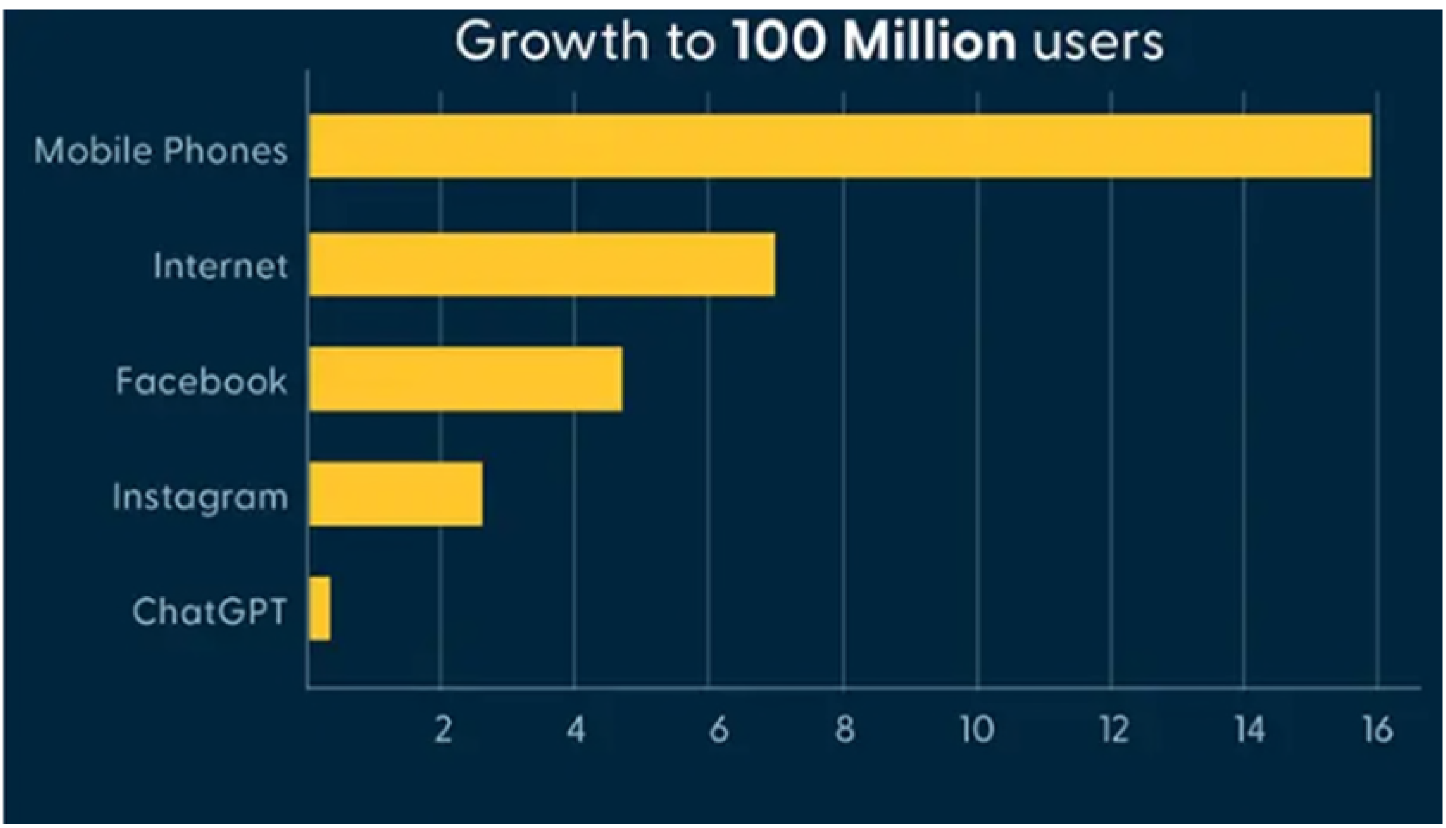
JSB Capital Management, LLC

Pro-active Wealth Management

May 13, 2024

In January of this year, we discussed in our annual “beginning of the year” newsletter forecast what some of the prevailing investment themes of 2024 would be. We specifically emphasized that Artificial Intelligence investments would dominate the marketplace for stocks. Below is an excerpt of that forecast:

The most important investment theme of 2024 will be the rapid and extensive proliferation of Artificial Intelligence based systems. What began in 2022 with the introduction of a system from Open AI known as “Chat GPT,” has grown faster than any technology in history. ChatGPT hit 100 million users in just under two months, the fastest-growing technology of all time:



The explosive surge in Chat GPT's users was 4.5 times faster than TikTok's and 15 times faster than Instagram's. Microsoft invested $10 billion into OpenAI, the startup behind ChatGPT.

ChatGPT is just scratching the surface of what generative AI can do. New ways of using AI and new, improved versions of AI are hitting the market every day. Corporations are using artificial intelligence to cut costs from the factory floor to the Executive Suite. AI is taking orders at McDonald's. The military is studying AI programs that can fly multiple planes at once. Chat GPT aced the bar exam and the CPA exam.

For better or worse, AI is supplanting older technologies and labor. When new technology can reduce labor costs, if revenue is just held stagnant, then profit margins go up. When corporations substitute physical assets with less expensive technology (AI), then returns on assets go up. Virtually every company in the U.S. is focused on these principles and AI will proliferate rapidly.

At the end of the newsletter, we presented our "Strategy for 2024" which stated that:

AI is a dominant theme and we have already begun to add investments to the portfolios that will prosper directly from advances in chip technology, cloud storage, cyber security, and software-as-a-service (SAAS) innovations. There will be additional investments, most likely in the ETF area that will focus directly on the AI boom.

Investing in Artificial Intelligence (AI) stocks or ETFs (Exchange Traded Funds) is the most prudent investment strategy for the next 2 to 3 years at least.

Compelling Investment Themes

1. **Exponential growth potential:** The AI industry is poised for explosive growth in the coming years. According to a prominent research firm, Grand View Research, the global AI market is expected to reach $390 billion by 2025. It has experienced a staggering compound annual growth rate (CAGR) of 46.2% from 2019 to 2025. This growth is fueled by the increasing adoption of AI technologies across various sectors, including healthcare, finance, retail, and manufacturing. As more businesses recognize the potential of AI to drive efficiency, innovation, and competitive advantage, the demand for AI solutions will continue to soar, creating immense opportunities for investors.

2. **Diverse applications:** AI has a wide range of applications across multiple industries, making it a versatile and resilient investment. From autonomous vehicles and personalized medicine to predictive maintenance and customer service chatbots, AI is transforming the way businesses operate and interact with customers. This diversity mitigates the risk associated with investing in a single sector and ensures that AI investments can weather market fluctuations.

3. **Competitive edge:** Companies that effectively harness the power of AI are likely to gain a significant competitive advantage over their peers. By leveraging AI to optimize processes, improve decision-making, and develop innovative products and services, these companies can drive growth, capture market share, and generate superior returns for investors. Investing in AI-focused companies

or ETFs allows investors to tap into this competitive edge and benefit from the long-term value creation potential of these firms.

4**. Increasing investment and R&D:** The AI industry is attracting significant investment from both the private and public sectors. Tech giants like Google, Microsoft, and Amazon are investing heavily in AI research and development, while governments around the world are launching initiatives to support AI innovation and adoption. This influx of capital is accelerating the pace of AI advancement and creating fertile ground for the emergence of new AI-driven businesses and technologies.

5. **Long-term growth trajectory:** The AI revolution is still in its initial stages, and the full potential of this transformative technology is yet to be realized. As AI continues to evolve and mature, it will likely unlock new opportunities and disrupt traditional industries in ways we cannot yet imagine. By investing in AI stocks or ETFs now, investors can position themselves to benefit from the long-term growth trajectory of this industry.

For the above reasons, investing in AI stocks or ETFs presents a compelling opportunity for investors seeking to capitalize on the transformative potential of this groundbreaking technology. With its exponential growth potential, diverse applications, competitive edge, increasing investment, and long-term growth trajectory, AI is poised to deliver superior returns for investors who have the foresight to recognize its immense potential.

Goldman Sachs Artificial Intelligence Forecast

Recently Goldman Sachs released a detailed report highlighting what it believes will be the next phases of the artificial intelligence trade, noting that “AI optimism across U.S. equities remains quite high but not yet a tech bubble or post-COVID high.”

The firm expects "three broad, subsequent stages of the AI trade" that stem from **Phase One**, which was the Nvidia (NVDA) boom. NVDA has experienced the most significant near-term AI success, Goldman stressed, with earnings pushing up the bulk of its 522% return since the beginning of 2023. "NVDA sales appear on track to increase by 300% in just 2 years. Despite AI optimism, the stock's forward P/E is virtually unchanged since the start of 2023," the firm stated.

Here are the details of what Goldman sees next for AI:

Phase Two: Infrastructure
The investment bank said that phase two will be focused on stocks beyond NVDA, names that are ingrained with the overall infrastructure that is required with artificial intelligence.
"Based on our framework, this phase includes semiconductor firms, cloud providers, data center REITs, hardware and equipment companies, security software stocks, and utilities companies."
Goldman Sachs said that some possible names that can fall in the broader AI infrastructure ecosystem include the likes of Broadcom (AVGO), Amazon (AMZN) and Cisco Systems (CSCO), among others.

Phase Three: Enabled Revenues
Phase three will be constructed around businesses with models that can integrate AI in product offerings to bolster overall revenues, Goldman predicted. "This phase aligns with management commentary and stock performance of many software and IT services companies."
Goldman provided a group of names that can be possible contenders. Some names that were listed included Intuit (INTU), ServiceNow (NOW) and MongoDB (MDB).

Phase Four: Productivity Gains
This phase, according to Goldman Sachs, will be dedicated around businesses that are implementing artificial intelligence to improve general business productivity, "with the largest potential efficiency gains in labor-intensive industries with jobs more exposed to AI automation."
"Based on our previous work, Software and Services, and Commercial and Professional Services have the largest potential earnings boost from widespread AI adoption via labor productivity," the firm stated.

Broader AI Exposure

While Goldman spotlighted some specific stocks that could benefit from subsequent stages of the AI economy, we believe that for investors looking for a diversified approach there are Exchange Traded Funds (ETFs) centered on AI.

Included in the ETFs Goldman recommended are:

1. Robo Global Artificial Intelligence ETF (THNQ)
2. Global X Artificial Intelligence & Technology ETF (AIQ)
3. GX Robotics & Artificial Intelligence ETF (BOTZ)
4. Roundhill Generative AI & Technology ETF (CHAT)
5. Goldman Sachs Innovate Equity ETF (GINN)

A more detailed analysis of the top three ETFs:

A. **THNQ**: Threadneedle Artificial Intelligence & Robotics ETF

- Launched in 2019, THNQ is a European-based ETF that focuses on AI and robotics companies.
- It invests in companies that are developing or manufacturing AI and robotics technologies, as well as those that are implementing these technologies in their products or services.
- THNQ holds a portfolio of around 60-65 stocks.
- Top holdings include companies like Nvidia, Keyence, and Intuitive Surgical.
- The ETF has a very low net expense ratio, which is lower than its peers CHAT and AIQ.

B. **AIQ**: PSBC Artificial Intelligence & Technology Opportunities ETF

- Launched in 2018, AIQ is one of the oldest AI-focused ETFs in the market.
- It takes a broader approach, investing in companies involved in various AI applications, including machine learning, robotics, and autonomous vehicles.
- AIQ holds a diversified portfolio of around 85-90 stocks.
- Top holdings include companies like Nvidia, Apple, and Microsoft.
- The ETF has a low net expense ratio, similar to CHAT.

C. **CHAT** : Global X ChatGPT & AI ETF

- Launched in March 2023, CHAT is one of the newest AI-focused ETFs.
- It seeks to invest in companies that are developing or utilizing AI technologies, with a particular focus on those involved in natural language processing and conversational AI applications like ChatGPT.
- CHAT has a relatively concentrated portfolio, holding around 35-40 stocks.

- Top holdings include companies like Microsoft, Nvidia, and Anthropic.

Key Differences:

A. Portfolio Composition: CHAT has a more concentrated portfolio, while AIQ and THNQ are more diversified across a larger number of holdings.
B. Focus Area: CHAT has a specific focus on natural language processing and conversational AI, while AIQ and THNQ have a broader scope that includes other AI applications and robotics.
C. Geographic Exposure: CHAT and AIQ primarily hold U.S. companies, while THNQ has a more global exposure, including companies from Europe and Asia.
D. Expense Ratio: THNQ has a lower expense ratio compared to CHAT and AIQ.

Overall, while all three ETFs provide exposure to the AI and robotics sectors, investors may choose based on their preference for a concentrated or diversified portfolio, specific AI applications, geographic exposure, and cost considerations.

Here's a comparison of the overlap in the top 10 holdings (as of May 9, 2024) and their percentage allocations for the three AI-focused ETFs – THNQ, AIQ, and CHAT:

THNQ Top 10 Holdings (Total of 63):

NVIDIA (2.6%)
Alphabet (2.5%)
Darktrace PLC (2.4%)
Microsoft (2.3%)
Samsara Inc. (2.3%)
Palo Alto Networks (2.3%)
Alibaba (2.3%)
Analog Devices (2.3%)
Cognex Corp (2.2%)
CrowdStrike (2.0%)

AIQ Top 10 Holdings (Total of 88):

NVIDIA (4.3%)
Tencent (3.9%)
Amazon (3.5%)
Netflix (3.4%)
Meta (3.4%)
Qualcomm (3.3%)
Alphabet (3.2%)
Alibaba (3.1%)
Broadcom (3.1%)
Oracle (2.9%)

CHAT Top 10 Holdings (Total of 50):

NVIDIA (10.5%)
Microsoft (9.3%)
Alphabet (6.0%)

Amazon (4.0%)
Meta Platforms (3.6%)
ServiceNow (3.2%)
Baidu (3.8%)
Salesforce (3.4%)
Adobe (3.3%)
Oracle (2.9%)

Overlapping Holdings:

- NVIDIA and Alphabet are top 10 holdings across all three ETFs.
- NVIDIA is the top 10 holding for all three.
- However, there are notable differences in allocation percentages. For example, CHAT has much higher concentrations in Microsoft, NVIDIA, and Anthropic compared to the other two ETFs.

Here is our ranking of the three AI-focused ETFs from most attractive to very attractive, along with five reasons for each analysis:

THNQ: Threadneedle Artificial Intelligence & Robotics ETF

Reasons:
a) Diversified global exposure across the U.S., Europe, and Japan, reducing geographic concentration risk.
b) Lower expense ratio, making it a more cost-effective option compared to CHAT and AIQ.
c) Incorporation of ESG factors in the investment process, appealing to socially responsible investors.
d) Balanced portfolio with exposure to both AI and robotics themes across various industries.
e) Qualitative research process that aims to identify companies with strong competitive advantages.

AIQ: PSBC Artificial Intelligence & Technology Opportunities ETF

Reasons:
a) Well-diversified portfolio across sectors like technology, industrials, healthcare, and consumer discretionary.
b) Rules-based index methodology provides a systematic approach to stock selection.
c) Established track record and higher liquidity with over $150 million in AUM.
d) Exposure to large-cap tech leaders like Apple, Amazon, and Tesla in addition to pure-play AI companies.
e) Lower portfolio concentration compared to CHAT, reducing single-stock risk.

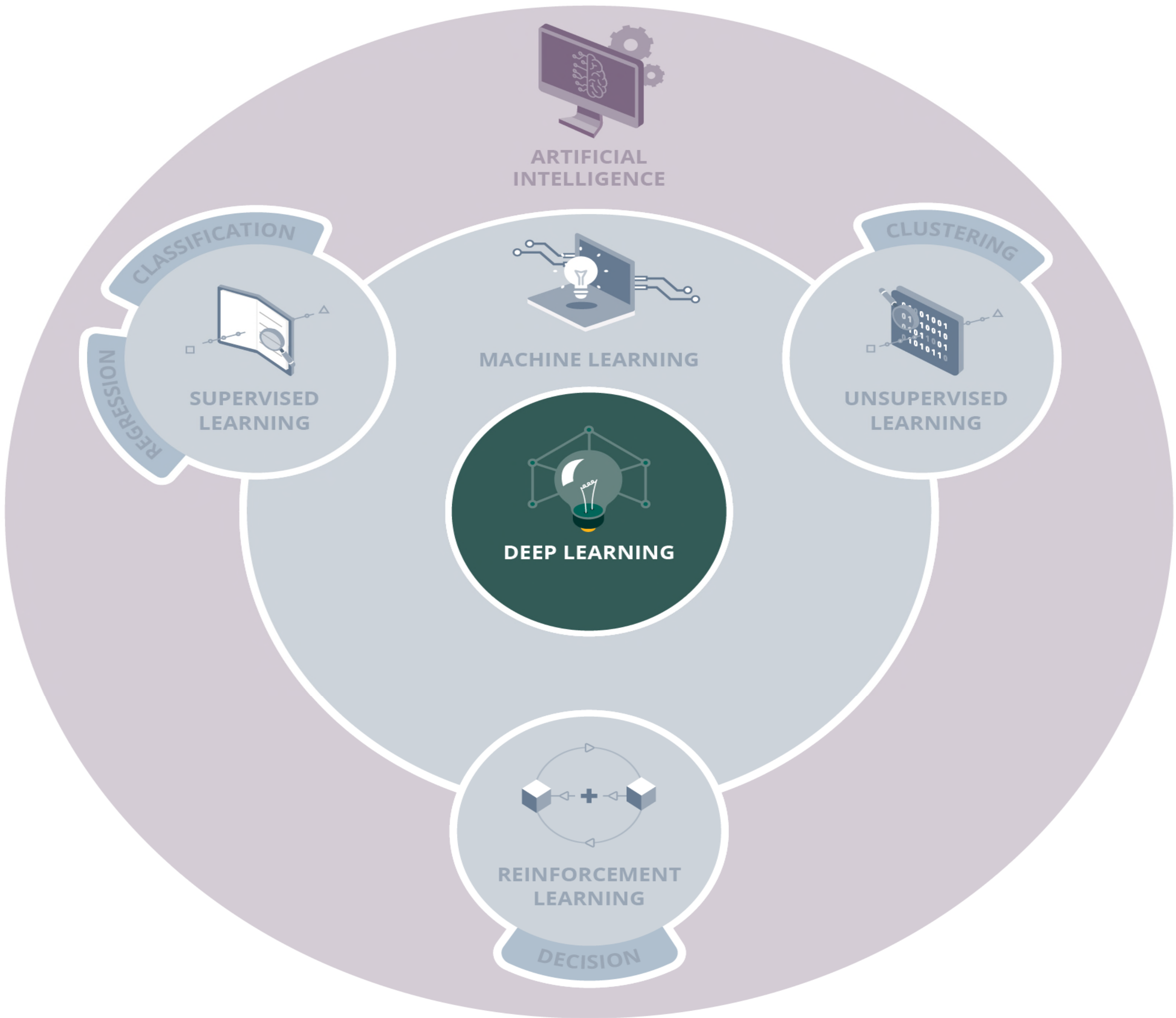
CHAT: Global X ChatGPT & AI ETF

Reasons:
a) Highly concentrated portfolio focused solely on conversational AI/NLP, increasing volatility risk.
b) Higher expense ratio, which could impact long-term returns.
c) Lack of geographic diversification with a primary focus on U.S. companies.
d) Skewed towards smaller, more growth-oriented companies, potentially amplifying market swings.
e) Limited long-term performance track record as a newly launched ETF.

The advantage here is increased diversification across multiple transformative tech themes.

As AI becomes more ubiquitous, there could be increased regulatory scrutiny and new rules/policies impacting AI development and deployment. Monitoring regulatory developments both domestically and internationally will be crucial for AI investors.

Over the next three years, the AI market will experience explosive growth and rapid technological advancements, solidifying its position as a transformative force across various industries. Here's our analysis of where the AI market could be in three years, along with the top five investments that could most efficiently and effectively capture this market environment:



<u>Projected AI Market in Three Years:</u>

<u>Increased Adoption Across Industries</u>: AI will become increasingly mainstream, with widespread adoption across sectors like healthcare, finance, manufacturing, retail, and transportation, driven by its ability to optimize processes, enhance decision-making, and improve operational efficiency.

<u>Natural Language Processing (NLP) Breakthroughs</u>: Advancements in NLP will enable more seamless human-machine interactions, paving the way for more sophisticated conversational AI assistants, automated content generation, and real-time translation capabilities.

Edge Computing and Internet of Things (IoT): The integration of AI with edge computing and IoT devices will enable real-time data processing and decision-making at the edge, unlocking new applications in areas like autonomous vehicles, smart cities, and predictive maintenance.

Ethical AI and Regulatory Frameworks: As AI becomes more pervasive, there will be increased focus on developing robust ethical AI principles and establishing regulatory frameworks to govern the responsible development and deployment of AI systems.

Increased Investment and Talent Acquisition: Companies across industries will ramp up their investments in AI research and development, as well as actively acquire AI talent and startups to gain a competitive edge in this rapidly evolving landscape.

The allocation in each portfolio to this game-changing technology has already begun as described in our January Newsletter. Additional investments will continue to be made throughout this year according to each investor's investment objectives and tolerance for risk.

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