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How big investors are playing the latest A.I. trend overtaking Wall Street

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Visitors stop by the pavilion of iFLYTEK at the 2021 Global Artificial Intelligence Technology Conference (GAITC2021) in Hangzhou in east China's Zhejiang province Sunday, June 06, 2021.
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The investing community can't seem to stop talking about artificial intelligence and what it means for the future of the world since the revolutionary launch of ChatGPT in late November.

The conversational chatbot sent off a tidal wave of excitement across the tech world because of its ability to carry on a conversation with users. Its introduction onto the tech scene provoked Alphabet , Baidu and even Alibaba to launch their own chatbots, while sending investors into a frenzy to find the next big AI contender.

In the weeks since ChatGPT's debut, any investment, or company, related to artificial intelligence has been on a tear, including ETFs with AI, or some variation of the word in their name. It's inspired technology giants like Meta Platforms and industrial behemoths such as Caterpillar to highlight their own AI use cases during recent earnings calls.

But not every company with AI in its title, or a stake in the race, may be worth investors' hard earned cash.

"Some of those stocks are ripe for shorting because they're really playing on the myth and not enough reality," said Paul Meeks, portfolio manager at Independent Solutions Wealth Management. "I think the leaders in AI are going to be some of those existing major companies, and not necessarily the upstarts."

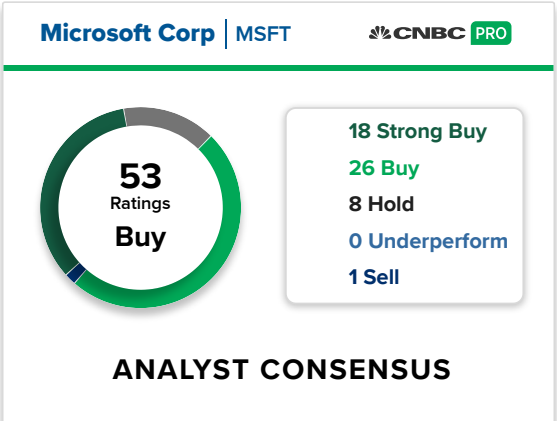
CNBC Pro spoke with big investors who said those looking to play the buzzy trend should consider sticking with larger cap names and already profitable companies with a stake in the game.

Saying Google is falling behind is a 'mistake'

Parking money in both Alphabet and Microsoft may be one of the best ways to play the latest AI trend, at least in the near term, big investors say.

Since the launch of ChatGPT last year, Microsoft has seemed to dominate the AI conversation, with the investing community lauding its multi-billion dollar investment in the chatbot creator and its plans to bring more capabilities to its Bing search engine.

In an interview with CNBC earlier this month, Microsoft CEO Satya Nadella called AI-powered search one of the biggest developments for the company since cloud first emerged.



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Average Price Target	286.24 Upside (14.6%)
Lowest Price Target	212.00

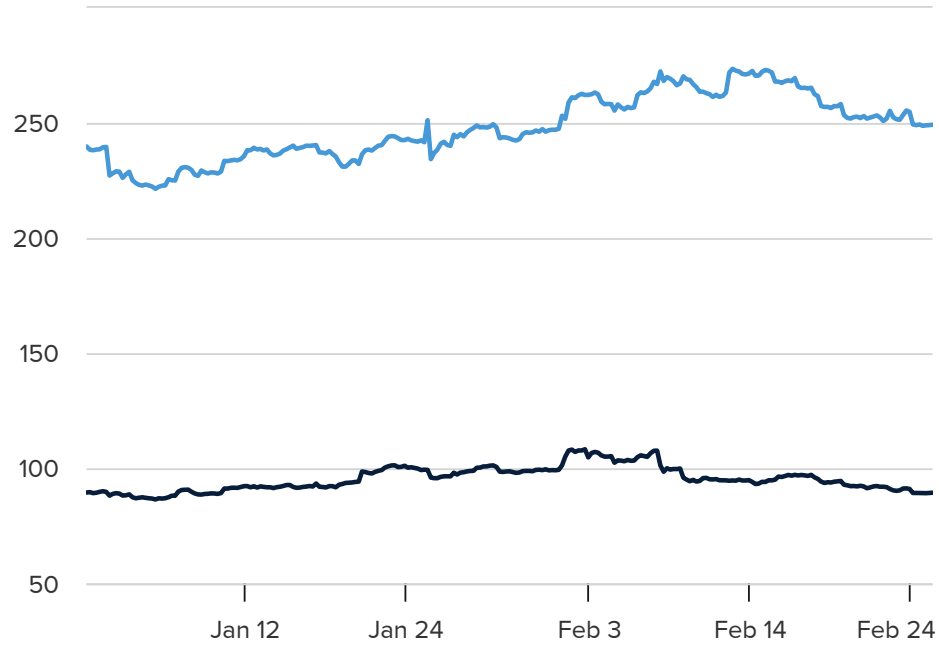
"It's a new day in search," Nadella said during an AI event held at Microsoft headquarters.

Given these recent developments, many investors recommend staying long Microsoft, including Sid Choraria, a portfolio manager at SC Asia.

Microsoft's AI developments and the reported blunder of Google's chatbot during a promotional video have fueled concerns in recent weeks that Alphabet may be losing the AI war. The Google parent's stock is up just 1% for the year and down 9.8% in February. Microsoft has gained 3.9% and 0.6% over the same spans.

But these concerns and the recent selloff appear overblown, according to Robert Bierig, partner and portfolio manager at Harris Associates.

Alphabet and Microsoft performance year to date



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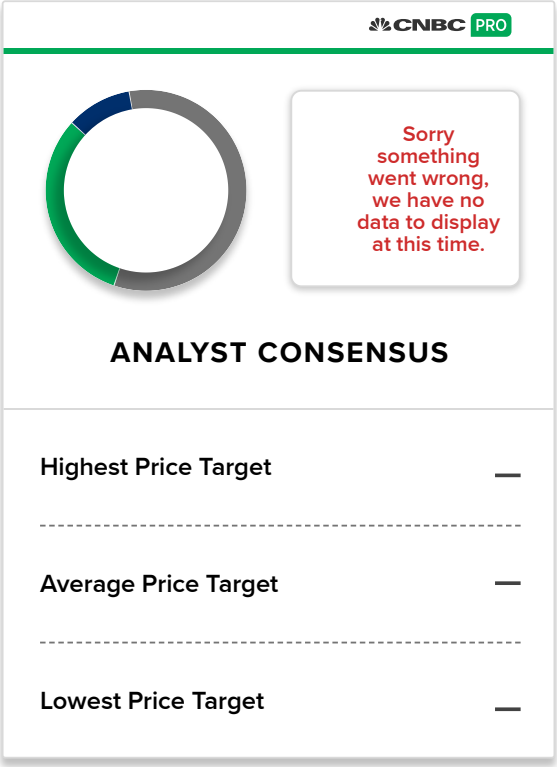
"Stay focused on Alphabet," he said, adding that more AI developments should create additional

opportunity."

Like Bierig, Deepwater Asset Management's Gene Munster says investors should stay long Alphabet, and the company's longstanding AI history and investments should yield long-term returns.

Alphabet has devoted research and development resources to AI and machine learning for years, launching products such as its Language Model for Dialogue Applications and BERT, a tool that better understands the search intentions of users.

"This is a multi-decade trend and to make the prediction that Google's already moving at a disadvantage to Microsoft I think is a mistake," Munster said.



Like Munster and Bierig, Meeks said investors have "unfairly criticized" Alphabet. He called the tech behemoth one of the best value stocks right now, viewing ongoing lawsuits and Bard's mishaps as only temporary issues.

The pullback in shares also puts Alphabet in line with the S&P 500, trading at a trailing price-to-earnings ratio of roughly 19 times, despite better top-line growth and profitability than the average company, Meeks said.

"When we get out one, two, three years from now, whenever AI really takes off, Alphabet will be there, bigger than everybody else in the space or as big as everybody else," he said.

Looking outside of FAANG stocks

Alphabet and Microsoft appear the dominant players and beneficiaries from the latest AI push, but big investors also see value in some chip and e-commerce names powering — or prospering from — these developments.

Although Nvidia trades at an eye watering trailing PE of roughly 134 times, Meeks sees value in owning some shares, given its graphics processing units fueling AI computer loading. Choraria also views Nvidia's hardware infrastructure prowess as an AI positioning tool.

Shares of Nvidia surged roughly 9% this week after it topped fiscal fourth-quarter earnings expectations and shared a bullish outlook on AI.

Nvidia's 2023 performance

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Outside of chip stocks, Choraria expects e-commerce company Alibaba to benefit from the AI push. He called the platform, which recently said it's working on its own ChatGPT rival, one of the best ways to play AI within e-commerce and China.

Integrating an AI tool into Alibaba's business and more AI content generation should improve efficiency and boost advertising effectiveness, he added.

"New technologies like generative AI and [virtual reality] will exponentially drive demand for computing power," Choraria added. "As a leading cloud vendor, the opportunity for Alibaba remains strong."

Since the launch of ChatGPT, many smaller companies with an AI focus, or simply a variation in their name, have seen a run up in their shares.

Take C3.ai and BigBear.ai, for example, up about 100% and nearly 368% in 2023 respectively, after plunging 64% and 88% in 2022. ETF's focused on AI, machine learning and robots have also seen a run-up in shares, including the Global X Robotics & Artificial Intelligence fund, up 13% this year.

Global X Robotics and Artificial Intelligence ETF year to date

But not every artificial intelligence stock is worth investors' hard-earned cash, said Meeks, who recommends shorting companies with unprofitable businesses and zero cash flow generation, and instead going long on Nvidia, Alphabet and Microsoft.

Munster too, recommends investors look for companies with some "measurable traction in

operating off of a small base.

"If they're not going to be growing revenue at 50% this year, it's still a science project," Munster said. "It may end up working out and be a great outcome, but I think the majority of them probably won't have great outcomes."