

The first half of 2023 has been much calmer than the first half of 2022. The S&P 500 is up 13.7% as of June 26th and up 22.3% since the October lows. These returns were led by hopes of an artificial intelligence (AI) boom.

We wanted to examine what AI might mean for investing, financial planning, and the economy. We decided to test this new intelligence superpower by asking it to do our job for us this quarter. Below in red, you'll see what happens when we asked ChatGPT to "write an investment commentary for Q2 2023 in under 400 words."

Part of me really wanted this to do a poor job and I was elated to see that it first used 598 words. I was also pleased to see factual errors such as "While major indices reach new highs early in the period." All major stock indices are still below their December 2021/January 2022 highs. Some of the information was also quite dated with references to vaccination rates and reopening timelines. Overall, it was generic with information that is universally and continually relevant. There were no references to actual market-based returns or economic figures. While it did provide some correct information the vast majority is applicable for most investment firms most quarters.

ChatGPT's capability to complete a commentary in a matter of seconds is impressive. However, its lack of detail, customization, and empathy show that the current power of AI is limited.

From an investing perspective, many people have asked AI, like ChatGPT, to create an investment portfolio that outperforms the stock market. Much like real investment managers, it has done so for some people, and it has failed to do so for others. We have also gotten questions about how to invest in the AI boom, and the simple answer is that you already are. Our largest equity holding (the Schwab or Russell 1000) has a 28-29% weighting in technology. When companies investing in AI do well, that provides a large positive for the overall market, and more narrowly, your investment portfolio. If AI is currently overvalued, the diversification throughout the rest of the portfolio should help dampen the negative effects of a pullback in AI stocks.

From a financial planning perspective, we see similar limitations to AI. Broadly, the recommendations it offers are limited to the quality of prompts given to which it responds. It can provide useful information, but it simply responds to a question.

This leads us to believe that, over time, AI will continue to improve both its ability to follow commands (under 400 words), accuracy (major indices reach new highs early in the period) and detail (specific numbers related to the prompt). The ability to ask good clarifying questions, answer questions tangentially related to a direct prompt, and understand the stress and anxiety related to investing are still a long way from being solved by AI.

Like all new technology, we will analyze the resource and see if it can help us become better investors, financial planners, and relationship managers. It will allow us to increase productivity over time as we learn how to integrate it into our business. Increased productivity could lead to stock market growth, which will contribute to our clients' investment returns. However, it will not be able to guide a client through a market that is down 20% for the first time since retirement with no income to offset stock

market declines. It will not help you formulate a financial plan that allows you to retire because you are looking forward to the next phase of your life. It will not help navigate all the emotional and financial complexities associated with losing a parent or a spouse.

The stress and anxiety related to money is a human reaction. It does not simply go away because of the words used (by an AI or by us as your advisor). It is calmed through an open and honest conversation that, with Legacy, includes detailed financial planning that incorporates multiple scenarios and stress tests. Even then, it's often the ability to recall emotions from previous experiences and remind clients that we have been here before and we will be here again that proves most useful. The investment gains over the last century illustrate why we ride the emotional roller coaster known as the stock market. AI will inevitably help us with parts of that experience just as the internet and countless financial technologies have since Legacy Wealth Management was founded 41 years ago. We have evolved leaps and bounds over those 41 years and will continue to do so, incorporating new technology where appropriate, while still putting personal relationships at the forefront of all we do.

Alas, thanks for reading this far. Apparently, whether AI or human, it is difficult to keep an investment commentary under 400 words. Hopefully, over time, we will also continue to improve our ability to follow commands. Right now, we are still far ahead of AI in our ability to use accuracy, detail, and compassion when communicating with clients.

The following is the commentary written by ChatGPT:

The second quarter of 2023 proved to be a period of notable market volatility and shifting dynamics across various asset classes. Uncertainty surrounding global economic recovery, combined with concerns over inflation and central bank policies, created a challenging environment for investors. In this commentary, we will explore key market developments and provide insights to navigate the evolving landscape.

Equity Markets: Equity markets experienced a mixed performance during the second quarter. While major indices reached new highs early in the period, increased volatility and profit-taking activities led to more modest gains or even slight declines in some regions. Investors remained cautious, monitoring the impact of rising interest rates and potential shifts in monetary policy. Technology stocks continued to demonstrate resilience, driven by ongoing digital transformation, while cyclical sectors faced headwinds due to concerns about economic slowdowns.

Fixed Income: Fixed income markets faced headwinds during Q2 2023. As inflationary pressures persisted, bond yields continued to rise, resulting in negative price performance for many fixed income instruments. Central banks signaled their intent to gradually tighten monetary policy, causing market participants to reassess interest rate expectations. In this environment, shorter-duration and inflation-linked bonds provided some relative stability, while longer-duration bonds faced downward price pressure.

Alternative Investments: Alternative investments displayed mixed performance across different segments. Real estate markets continued to recover, albeit at a slower pace, with residential and industrial sectors showing strength. Private equity activity remained robust, fueled by attractive valuations and opportunities for growth in disruptive sectors. Hedge funds faced challenges, with some strategies

struggling to navigate the increased market volatility, highlighting the importance of selecting managers with a track record of adaptability.

Regional Outlook: Regional dynamics varied during the second quarter. Developed markets, such as the United States and Europe, experienced divergent economic recoveries, influenced by differences in vaccination rates and reopening timelines. The United States demonstrated resilience, supported by fiscal stimulus and strong consumer spending. Europe faced headwinds due to supply chain disruptions and temporary setbacks in reopening plans. Emerging markets encountered mixed performance, with some countries benefiting from strong export demand, while others grappled with inflationary pressures and currency volatility.

Investment Strategy: In light of the evolving market conditions, a cautious and diversified approach to investing is prudent. Selective exposure to sectors that demonstrate resilience, such as technology and healthcare, can provide long-term growth potential. Fixed income portfolios should be managed with consideration for rising interest rates, favoring shorter-duration bonds and inflation-protected securities. Alternative investments, including real estate and private equity, can offer opportunities for income and capital appreciation in a potentially more challenging market environment.

Risk Management: Effective risk management remains crucial for investors. Heightened market volatility underscores the importance of maintaining a diversified portfolio, conducting thorough research, and periodically reviewing investment allocations. Staying informed about macroeconomic indicators, geopolitical developments, and regulatory changes is essential to adjust investment strategies and mitigate potential risks.

Conclusion: The second quarter of 2023 presented investors with a range of challenges and opportunities. Amid market volatility and uncertainties, a disciplined and informed investment approach is key. Evaluating sector-specific trends, managing interest rate risk, and carefully selecting alternative investments can help investors navigate the evolving landscape. It is vital to regularly review and adjust investment strategies to ensure alignment with long-term goals.

Please note that this commentary provides general information and does not constitute personalized investment advice. It is important to consult with a professional financial advisor to tailor investment decisions according to individual circumstances and objectives.

[Disclaimer: Past performance is not indicative of future results. The value of investments may fluctuate, and investors may lose some or all of their initial investment.]

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