

Investing in Artificial Intelligence

By now most people have come to realize that AI's impact on the world as we know it is going to be tremendous and we are still in the very early stages. Investing in NVIDIA (NVDA) which makes the chips necessary for AI to run is like investing in the picks and shovels of the gold rush. However, the value of NVDA has already risen dramatically as the demand for its chips continues to surge.

On the platform side, one of the most well-known companies is called Open AI which created ChatGPT along with many other applications. Although Open AI is not publicly traded, Microsoft (MSFT) is one of the largest investors in Open AI. Microsoft shareholders indirectly own a part of Open AI. However, Microsoft is such a large company that this stake in Open AI will be substantially diluted by the company's other lines of business.

Although Open AI is not a publicly traded company that does not mean that you can't invest in it.

Scores of private companies that are still in the pre-IPO stage are available to invest in through secondary markets. Accredited investors can invest in companies like Open AI, Space X, Stripe, and Databricks even before they go public. This can be one of the better ways to get exposure to pure play AI investing.

With any stock either pre-IPO or post IPO there is a risk that the company's business plan may not work as expected and the stock could go down. However, with pre-IPO stocks there is far less liquidity than with publicly traded companies. Recently companies have been waiting longer and becoming more established before going public. Many companies are already generating substantial revenues.

The more established a company has become prior to investing even pre-IPO the less risk there is for a company's future viability. Investing pre-IPO in general often offers investors more returns than waiting until after a company has gone public to invest. According to Investopedia, between 2000 and 2020 the average first day IPO return was 21.11%.

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