Y2K vs AI; Really?

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After a few months of strong returns for growth stocks, several pundits who missed the train are now trying to come up with reasons why the current rally won't last. Some say that investors who made money in tech stocks should retire to the sidelines until there is another opportunity to buy them. But the idea that you can outsmart Mr. Market by waiting for such a decline to buy low and benefit from a rally may not be good advice.

One comparison a few market mavens have been making is that the runup in those companies benefiting from the emerging Artificial Intelligence story is akin to the runup in tech stocks back in the late 1990s. Otherwise referred to as the "dot.com bubble," there were many information technology, media, and telecom stocks that soared only to be crushed in the 2000-2002 bear market. Without any current analysis of the disaster back then, these forecasters project that event for this year implying that another bear is waiting in the wings -- specifically, the "AI" stocks that are forecast to perform like the dot.com stocks in the Nineties. There are reasons to believe that the analogy is incomplete without coming up with some causality for the former event.

Y2K was the identity given to the potential meltdown of computers on the first day of the year 2000 because the brains of computers were not designed to facilitate the numeric shift from one century to another. In response to this risk, both the government and private industry geared up to head off the problem. We remember filling out form after form attesting to our efforts to upgrade our systems of both hardware and software to avoid a calamity. During that 1996-1999 tumultuous period, many companies were formed and made fortunes helping businesses and individuals prepare for the post-1999 environment. Well, they did it! There was no meltdown or calamity. We survived the shift into the 21st century. However, the process did transfer enormous technological demand from the early 2000s into the 1990s. As a result, many of these Y2K success stories went bankrupt and contributed to the bear market of 2000-2002.

The Artificial Intelligence boom does not have the risk of a time differential to upset the likelihood of a continued upward move in the stocks of companies that provide services to or benefit from the applications of AI. In other words, there is no expiration date associated with the use of AI. Traditional companies that move quickly to implement AI in their business processes may be an attractive alternative to the high-priced AI technology stocks that have dominated the stock market over the past year. For example, as the story goes, it was the companies that supplied the tools to the gold miners that made all the money, not the miners themselves.

AI is the next leap forward in the application of computer capabilities to enhance our standards of living. For investors, finding the right companies in this environment may be challenging but the rewards for identifying the winners will be enormous.

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