



SPW – We are thinking about ... Artificial intelligence and trading platforms.

Questions you are asking: “What is happening with AI and trading platforms?”

We are thinking about ... Artificial intelligence and trading platforms.
by Peter Coe Verbica, JD, CFP® with input from colleagues



Our clients' interests first”

As fiduciaries, we at **Silicon Private Wealth** (“SPW”) put our clients’ interests first. As a Registered Investment Advisor, we receive inquiries from our valued clients on a wide variety of topics, including artificial intelligence and trading platforms. With any new popular phenomenon, our first order of business is to assess its upsides as well as its downsides.

What Is Artificial Intelligence?

According to *Investor’s Business Daily* (“IBD”),

“Artificial Intelligence (AI) refers to the development of computer systems that can perform tasks typically requiring human intelligence. It involves creating algorithms and models that enable machines to learn from data, recognize patterns, make decisions, and solve problems.”

Programs such as **Midjourney**, the powerful graphics platform and **ChatGPT**, the large language chat bot which composes essays and research papers with startling speed. According to **Debra Cassens Weiss**, a journalist for the *ABA Journal*, the latest version of ChatGPT passed the Uniform Bar Exam and “earned a score so high that it approaches the 90th percentile of test-takers.”¹

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Clearly, computer processing power has migrated from the repetitive and rote functions to the most creative and sophisticated, heretofore under the exclusive purview of humans. **HAL 9000** and the future are here.

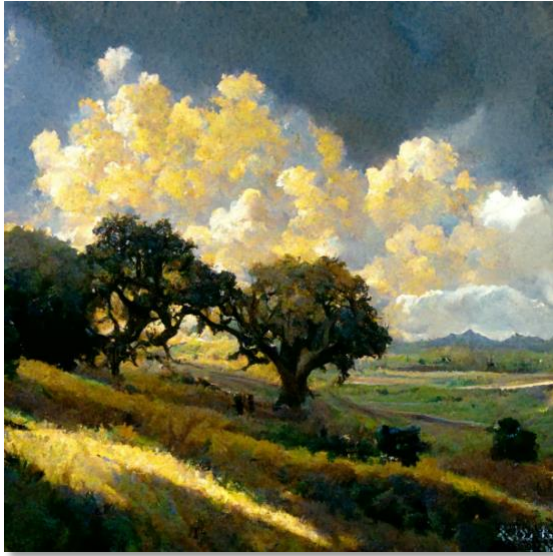


Figure 1 Plein air art using Midjourney driven by author's prompts.

All eyes on Musk

Serial entrepreneur **Elon Musk** has the financial industry and its clients leaning forward in their chairs as he debuts his new AI-driven trading platform. Some pundits argue that his re-branding of **Twitter** to “**X**” is just the first in a series of steps to mimic and then exceed the capabilities of **We Chat** (which integrates communications and payments processing and has a pervasive presence in much of Asia). Given Musk’s success history, including **PayPal**, **Tesla**, **SpaceX**, **Neuralink**, and **OpenAI**, he captures immediate and well-deserved attention.

New fintech platforms, including robo-trading, are no longer novel, but some apps have been criticized as overly speculative by Wall Street wizard **Charles Munger**. FINRA, the SEC and state regulators have also weighed in with fines and litigation, under certain circumstances.

"Power and Peril"

Society and governments are wrestling with the AI phenomenon. Years before Musk and Google CEO’s cautions on the trend, **Stephen Hawking** sounded the alarm:

“The development of full artificial intelligence could spell the end of the human race... It would take off on its own, and re-design itself at an ever increasing rate. Humans, who are limited by slow biological evolution, couldn’t compete, and would be superseded.”

At SPW, we believe that human oversight is an important dynamic with a human being having the final decision; the consequence of synthetic sentience gone awry is brilliantly portrayed in **Stanley Kubrick**’s movie, *2001: A Space Odyssey*, when Dave had to shut down **HAL 9000**.

Recently, **Bashar Abouseido**, Schwab’s chief information security officer, unveiled his thoughts in an interview entitled, “Artificial Intelligence: The Power and the Peril.” Abouseido describes how the underlying efforts of AI are not new: they’ve been ever-present in how modern jets are flown, robotics is used in manufacturing, and computer-driven chess masters wins against humans.ⁱⁱ What has changed is on the Neuro-Linguistic Programming “NLP” side: regenerative AI now provides human-mimicked answers, including computer coding, elaborate works of art, and well-articulated research papers.

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(Microsoft’s lift versus Google/Alphabet after its multi-billion-dollar investment in OpenAI announcement on Jan. 23, 2023.)

We are in an age of hyper-evolution and VCs, including the likes of **Eric Schmidt**, Google’s former CEO, are doing their level best to capitalize on it.ⁱⁱⁱ

Old Lessons, New Technology

AI trading “bots” add a new methodology to the practice of day trading. According to Netscout, “Bots” are:

“A computer bot – which is short for robot – is a software application programmed to execute specific tasks as part of another computer program or to simulate human activity. Bots are designed to automate tasks on their own without human intervention, thus eliminating cumbersome manual processes.”^{iv}

Day trading was and continues to be a cautionary tale. Add derivatives to the mix, such as sophisticated option strategies, and the results for the novice can be catastrophic. The US Securities and Exchange Commission (“SEC”) advises that day trading puts “your dollars at risk.” The SEC states the following 7 points on its website:

- Day traders do not “invest”
- Day trading is an extremely stressful and expensive full-time job
- Day traders depend heavily on borrowing money or buying stocks on margin
- Don't believe claims of easy profits

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- Watch out for “hot tips” and “expert advice” from newsletters and websites catering to day traders
- Remember that “educational” seminars, classes, and books about day trading may not be objective
- Check out day trading firms with your state securities regulator^v

Containment: Learning from the Crypto-Craze

With the onset of crypto currencies, we at SPW have had clients interested in the space. Our cautious approach, due to questions surrounding the regulatory environment, as well as the technology and the risks, continues to be the utilization of Delaware Trusts in the event of our clients’ wanting exposure to these alternative investments.

Our rationale is that we want to have a clear sense of our client’s risk exposure, if, for instance, an investment were to take a turn for the worst; SPW’s rationale, should a client want to have a speculative investment in his or her portfolio, is to contain and limit the risk to the amount invested.

If a proverbial beast is novel, our goal is to keep it in its cage, so that we can observe its care and feeding, and more importantly, ensure that it does not eat other animals at the zoo.

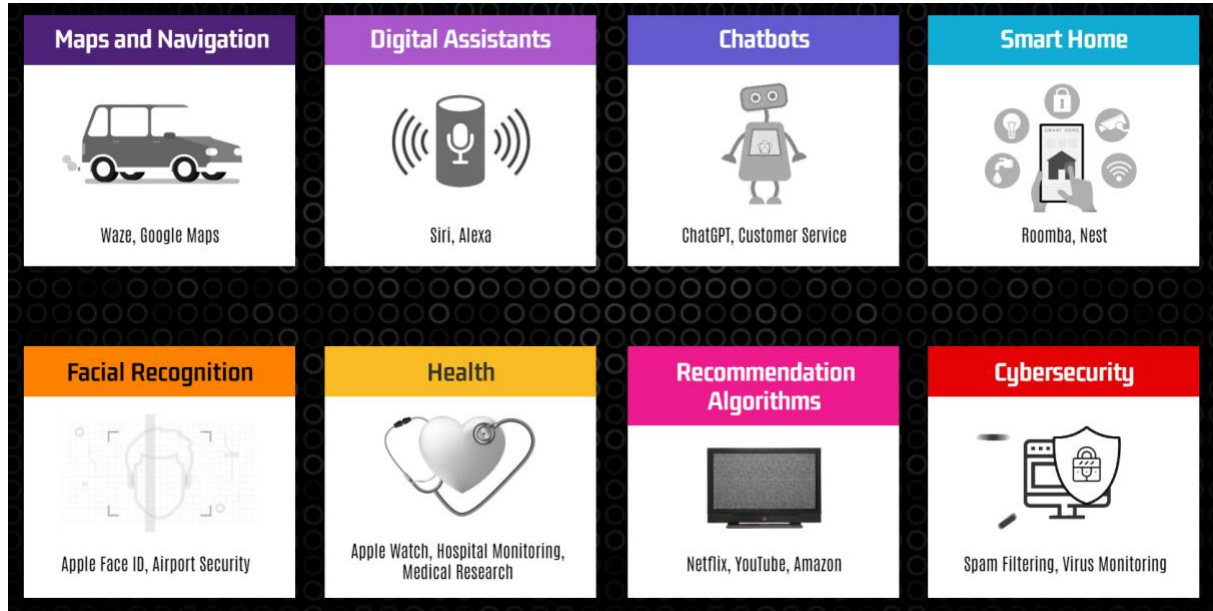
Our current strategy with respect to AI and trading platforms

SPW’s current strategy with respect to AI and trading platforms continues to evolve; as an RIA, we have access to a tremendous amount of research, provided by numerous reputable firms. Additionally, we use portfolio analytics tools which assist us in back-testing, “X-raying” underlying holdings, assessing certain correlations, holding crossovers, estimated income, performance reviews, benchmarks, and more.

As a firm, we invest in companies which enjoy the “halo” of artificial intelligence; companies at the forefront of AI include well-capitalized names such as **Google, Microsoft, Nvidia, Amazon, Apple, AMD** and others. Additionally, we have access to a suite of funds which invest in companies positioned to potentially benefit from AI’s increased role in our society.

With time, we expect our industry to adopt more and more implements which use AI. AI is already embedded in the numerous tools and devices we use in everyday life, including our search engines, our computer’s antivirus software, our smart watches, our chat bots, AI-driven graphics programs, and by various portfolio managers to whom we have access.

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(“Examples of AI in Everyday Life” graphic. Source: IBD.^{vi})

SPW is built, brick-by-brick by founders who are discerning and selective. As the AI trading platform unfolds, prudence will continue to be the northern star by which we calibrate our compass. Fortune favors the bold, but from experience, we know that many a ship was lost at sea in uncharted waters.

Peter Coe Verbica is a Certified Financial Planner® and Managing Director of **Silicon Private Wealth**, holds a Master of Science degree from MIT and a JD from SCU. He is a California Licensed Professional Fiduciary and National Certified Guardian. He hosts the **Verb™ Presents Speaker Series**, interviewing subject matter experts on a wide variety of topics including cybersecurity, tax law, civility and geopolitical risks; his guests have included the former Deputy Director of the NSA, the former US Ambassador to the Ukraine, and a retired US Navy Admiral.

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ⁱ <https://www.abajournal.com/web/article/latest-version-of-chatgpt-aces-the-bar-exam-with-score-in-90th-percentile>

ⁱⁱ <https://www.schwab.com/learn/story/artificial-intelligence-power-and-perils>

ⁱⁱⁱ <https://www.wired.com/story/plaintext-eric-schmidt-funding-super-evolution/>

^{iv} <https://www.netscout.com/what-is/bot>

^v <https://www.sec.gov/about/reports-publications/investor-publications/day-trading-your-dollars-at-risk>

^{vi}

<https://get.investors.com/infographics/ai/?refcode=em%7CSFMC%7CAIInfographic%7C2023%7C07%7Cprcn%7Cna%7C%7C900091&src=A00205>