PALOS

Weekly Commentary

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By Charles Marleau CIM® and William Mitchell CIM®

Artificial Intelligence: The Rise of Machine Learning

What is Artificial Intelligence (AI)? According to Merriam-Webster, AI is defined as a branch of computer science dealing with the simulation of intelligent behaviours in computers. In essence, AI enables machines to learn human behaviours and actions by using data that is provided by humans. Ultimately, machines will achieve such a high level of mimicry that distinguishing the difference between what's real (i.e., a human) and what's not real (i.e., a machine) will be virtually impossible.

The latest technological wonder to grab investors' attention is called ChatGPT (GPT is an acronym for Generative Pre-trained Transformer). ChatGPT was developed by Silicon Valley-based OpenAI, a company built by a contingent of backers that originally included Elon Musk. In 2019, **Microsoft (MSFT:NASDAQ)** made a strategic investment in the company to further develop Microsoft's AI capabilities. ChatGPT has come to the forefront since the fourth quarter of 2022 and has been received with widespread astonishment in public circles.

In the simplest of terms, ChatGPT allows a computer to respond to text queries from humans. Responses are generated using massive amounts of gathered data from a multitude of sources, that enable the program to respond in human-like language, on virtually any topic and in a matter of seconds. While most answers are generated using data the program was "trained" on, a "deep learning" capability lets the program improve its knowledge and polish future responses.

Like any new technology there are dangers and fears. One of the most obvious questions is: can it be trusted? For instance, how would we know if the information used to generate a response is credible, factual and up to date? The "machine" itself may not have the ability to distinguish between truth and falsehood, so how can the user? We are living in an era where bad actors have used false information to sway public opinions, dispense "fake news" and influence the outcomes of elections.

AI technology is being viewed as more disruptive than past technology advancements like the printing press, the internet, and iPhones. Next week (March 20 to 23) we will be attending the 2023 NVIDIA GTC (GPU Technology Conference). GTC, which is accessible virtually, brings together AI developers, engineers, academics, and investors from around the globe and will focus on applications for machine learning. These include self-driving cars, medicine, virtual reality, and scientific research. The boundaries are virtually limitless. We will be doing our homework on the plethora of new investment opportunities that are sure to surface as IA rapidly advances. We look forward to sharing what we learn over the coming weeks.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) [1]	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	$8.59	4.17%
Palos Equity Income Fund - RRSP	PAL101	$6.72	3.31%
Palos WP Growth Fund - RRSP	PAL213	$13.05	4.53%
Palos-Mitchell Alpha Fund [3]	PAL300	$8.95	12.35%
S&P TSX Composite (Total Return with dividends reinvested)			2.56%
S&P 500 (Total Return with dividends reinvested)			0.92%
S&P TSX Venture (Total Return with dividends reinvested)			7.25%
Chart 2: Market Data [1]			**Value**
US Government 10-Year			3.70%
Canadian Government 10-Year			2.99%
Crude Oil Spot			US $76.68
Gold Spot			US $1,867.20
US Gov't10-Year/Moody BAA Corp. Spread			188 bps
USD/CAD Exchange Rate Spot			US $0.7230

[1] *Period ending March 10th, 2023. Data extracted from Bloomberg*

[2] *Fund is priced annually*

[3] *Fund is priced weekly on Tuesdays*

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