SEIA
SIGNATURE ESTATE & INVESTMENT ADVISORS, LLC®
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THE SEIA REPORT

HOW ARTIFICIAL INTELLIGENCE CAN BENEFIT INVESTORS – BUT INTRODUCE NEW RISKS

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CFA®
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What comes to mind when we think about artificial intelligence (AI)? Recent news articles seem to have been dominated by generative AI in popular software applications, such as ChatGPT and tools that can generate not just text, but also images as well. While the aspect of AI that can, theoretically, write and create news articles, emails, and pictures on its own has captivated many people, it is not by any means the only story. There are quite a few items to unpack when discussing AI.

Government Regulations to Combat Nefarious AI Uses

AI is not limited to things such as streaming services that suggest movies or music, or autocomplete functions in email or word processing, AI also extends to other areas, including warfare and weaponry. AI that can generate computer code can be used by hackers, and AI that can help develop new medicines can also be used by terrorists to create new chemical or biological agents. Given those more sinister applications, government regulations will almost certainly be instituted.

Already, Biden administration officials have been preparing a new executive order that may restrict U.S. investment into technologies developed by some of the U.S.'s geopolitical rivals, such as China. And export restrictions of certain hardware, such as certain advanced semiconductors used in AI systems, have already been introduced. A primary goal of the Biden administration is to prevent U.S. investments in AI-related technologies from aiding our rivals' military capabilities or terrorist organizations.

And lawmakers on Capitol Hill are seeking to catch up to Europe's head start on its own regulatory packages addressing some of the perils of AI. Senate Majority Leader Charles E. Schumer (D-N.Y.) recently launched a broad congressional effort to set new rules for AI to address concerns about the technology's impact on privacy, intellectual property, and national security, among other concerns. Certainly, investors will need to be cognizant of any government policies implemented in order to control

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I believe successful wealth management is the result of an ongoing collaboration between investor and advisor, built upon trust and maintained according to the highest standards of integrity and expertise.

Brian D. Holmes,
MS, CFP®, CMFC, AIF®, *President & CEO*

ABOUT SEIA

Signature Estate & Investment Advisors, LLC® (SEIA) is a Registered Investment Advisor firm offering Investment Supervision and Financial Planning Services tailored to align the unique needs of affluent individuals and corporations. Fundamental experience and professionalism enable the financial advisors, with SEIA's research and support staff, to design a financial plan or investment portfolio to align the client's goals.

SAVE THE DATE

Q3 2023 Investment Roundtable Webinar

Thursday, August 17th
1pm PT

Please check with your financial advisor for further details.

IMPORTANT UPDATE

Enhancing Our Wealth Management Platform and Broker-Dealer Affiliation

We're excited to share some important news that will positively impact our business operations and expand our wealth management platform. In this pursuit, we have decided to transition our Broker Dealer affiliation from Royal Alliance Associates to Signature Estate Securities (SES).

This collaboration represents a significant step forward for our firm and, most importantly, for you, our valued clients. By partnering with SES, we can offer an even more unified platform for both Registered Investment Advisor (RIA) and Broker-Dealer services. This enhancement will unlock numerous benefits, including greater access to alternative investments, improved client-facing technology, and comprehensive family office services.

The transition to Signature Estate Securities will be completed by September 30th, replacing Osaic Wealth, Inc. (formerly known as Royal Alliance Associates, Inc.). Rest assured, your custodians and SEIA agreements will remain unaffected, and no action is required from you.

Amid this transition, we also wish to share that Royal Alliance Associates, Inc. will be rebranding as Osaic Wealth, Inc. You may have already received, or will receive very soon, an official notification about this change when you receive your annual privacy notice from Osaic Wealth.

We are truly grateful for your continued trust and partnership with us. Should you have any questions or concerns about these changes, please don't hesitate to reach out to your advisor.

Still, close attention to the promises – and the perils – associated with AI is important, especially as the technology progresses, novel uses for it are identified, new government regulations are finalized, and any tax ramifications are codified.

technologies that are essentially black boxes (and which may produce unintended results). Some regulations can throttle certain potential investment opportunities; others might not.

Investment Opportunities from AI

Speaking of investment opportunities from AI, many investors have focused simply on the most obvious and direct beneficiaries of the introduction of AI systems, including companies involved in both hardware, such as makers of semiconductors and equipment, and software that can harness AI functions. However, some of these companies have drawn significant investor interest that may already be reflected in their current share prices.

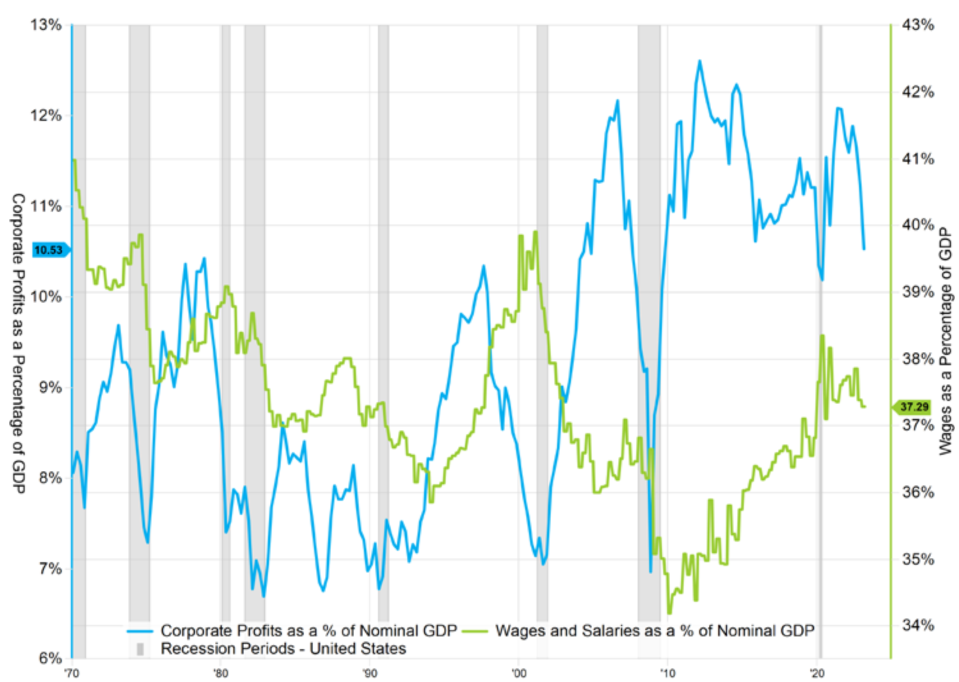
Similar to the dot com mania in the late 1990s and into early 2000 – before the bursting of the dot com bubble and the broader bear market that followed – one may wonder, in the current environment, if the prices of certain of these AI-themed stocks have risen too far, too fast. Maintaining a sensible exposure to the broader economy and the opportunities presented by all sectors – including technology companies – is one thing, but one may need to be a bit circumspect before pouring one's entire portfolio into a basket of just a few AI-themed stocks.

Really, though, the beneficiaries of AI aren't limited to just a handful of stocks that are most directly associated with producing AI hardware and software. Rather, the benefits of AI might eventually flow through the entire economy, and benefit economic growth broadly, potentially supporting share prices across a broad array of sectors.

The mechanism by which AI can bolster both the economy and the market is through increased productivity, which can increase the potential amount of output in the economy. And companies that deploy AI thoughtfully might generate higher profits. This can benefit not just the handful of stocks to which investors associate AI most closely, but also many companies in the broader market.

Goldman Sachs economists estimate that widespread AI adoption could boost productivity growth by roughly 1.5 percentage points per year over a 10-year period. In this scenario with widespread adoption of AI that occurs in 10 years, real GDP growth could be increased by 1.1 percentage

WAGES AND SALARIES VS. CORPORATE PROFITS AS A PERCENTAGE OF NOMINAL GDP



Source: the U.S. Bureau of Economic Analysis points for that 10-year period, according to the economists' estimates. In turn, earnings per share (EPS) of the companies in the S&P 500 in 20 years would be 11% greater than Goldman's current baseline assumption, and the S&P 500 fair value would be 9% higher than today, holding all else equal, in Goldman's calculations.

Potential Economic Risks and Corporate Tax Policy Responses

However, the timing and ability of S&P 500 companies to generate incremental profits from AI is uncertain. And policymakers may address any labor displacement from AI adoption with additional regulations – or increased corporate income tax rates – to help displaced workers.

Indeed, Goldman Sachs economists' estimate that two-thirds of US occupations are exposed to some degree of automation by AI. Of those occupations that are exposed, most have a significant—but partial—share of their workload, ranging from 25% to 50%, that can be replaced. Of course, some workers may apply freed-up time to other activities, and new jobs may provide further opportunities.

Importantly, though, the risk of labor force displacement – and the possible effort by government policymakers to address the issue through the tax code – is especially true given the historically low level of wages as a share of GDP, as seen in the nearby graph. Views that the benefits of AI are disproportionately flowing to corporations and large shareholders can prompt changes to tax policies.

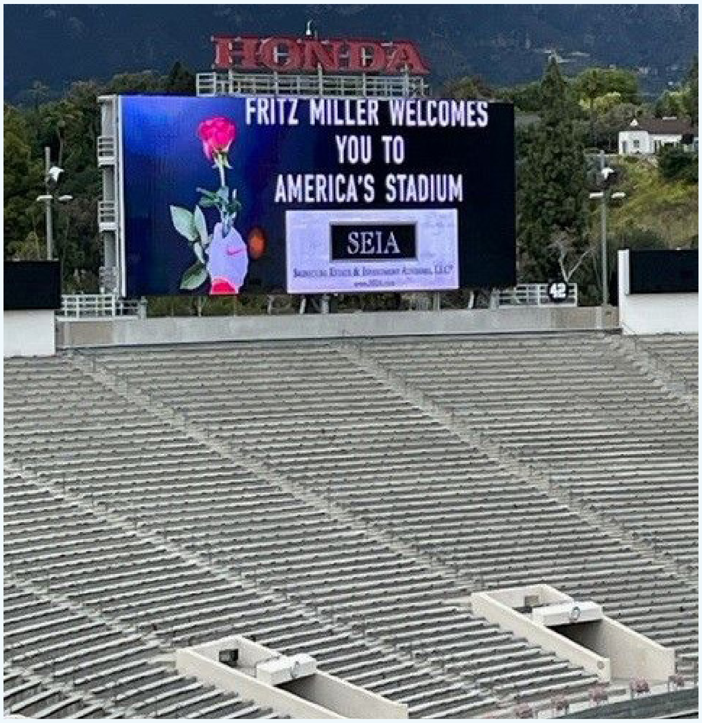
Conclusion

Whatever the implications of AI may turn out to be, the process will likely not be immediate, nor will it necessarily extend to every sector, industry, or company equally. Some companies may adopt AI technology more successfully or earlier than other companies might. On the other hand, some companies may find that large investments into AI technologies may turn out to have been costly mistakes.

Still, close attention to the promises – and the perils – associated with AI is important, especially as the technology progresses, novel uses for it are identified, new government regulations are finalized, and any tax ramifications are codified.

At SEIA, we monitor the ever-evolving landscape of the economy and markets, ranging from broad government policies to company-specific fundamentals. As always, please reach out to your SEIA advisor. He or she will gladly assist you in making the right decisions to help you achieve your financial goals – and avoiding media hype in the process.

IN THE NEWS



Our Senior Partner, Rose Bowl Legacy Foundation Board Member, and UCLA Alum, **Fritz Miller**, CFP®, ChFC®, AIF®, and his Pasadena team welcomed friends and family to the Terry Donahue Pavilion at The Rose Bowl Stadium for their event "The Evolving Landscape in CollegeSports: Impact on Players, Teams and Venues".

Featuring top leaders in the industry, the panel discussed how their college experiences built wealth, the ever-changing athlete experience, and how the Big Ten Conference will impact The Rose Bowl and surrounding communities.

Josh Lewin, Radio play-by-play announcer and Voice of the UCLA Bruins

Chase Griffin, UCLA Quarterback and Winner of the N.I.L Male Athlete of the Year

James Washington, UCLA Alum, Rose Bowl Champ, and two-time Super Bowl Champ with the Dallas Cowboys

Jens Weiden, CEO of The Rose Bowl Stadium

STUDENT DEBT RELIEF: WHERE DO THINGS STAND?

On Friday, June 30th, the Supreme Court struck down the Biden Administration's cornerstone program designed to provide a measure of student loan debt forgiveness. The original plan was structured to provide relief to more than 40 million federal loan recipients making less than $125,000 annually ($250,000 for married couples)—by cancelling up to $20,000 of debt for Pell Grant recipients, and up to $10,000 for most other federal student loan borrowers.

In a 6-3 decision along partisan lines, the high court ruled that the administration had overstepped its authority by using the 2003 HEROES Act (initially enacted after 9/11) to forgive up to $400 billion in student debt. The Act, which affords the Secretary of Education the power to "waive or modify any statutory or regulatory provision" to protect borrowers affected by "a war or other military operation or national emergency" was used to pause both repayment requirements and interest accrual on federal student loans since March 2020 when the COVID pandemic began.
In light of the ruling, student loan interest accrual is scheduled to begin again on September 1st and loan payments will be due starting in October.

Moving on to Plan B
In the immediate aftermath of the defeat, President Biden announced that his administration is undertaking a new effort to provide some measure of federal student loan debt relief under a different law—the Higher Education Act of 1965 which empowers the Secretary of Education to "compromise, waive, or release any right, title, claim, lien, or demand, however acquired, including any equity or any right of redemption."

Under this new SAVE (Saving on Valuable Education) Plan, some borrowers will qualify to enroll in a new income-driven repayment program to both lower their monthly bills and reduce the total amount repaid over the lifetime of their loans.

- Single borrowers earning $32,800 or less (or borrowers with a family of four earning $67,500 or less) would see their payments reduced to $0 if enrolled.

- Unpaid interest will not accrue if borrowers make a full monthly payment (balances will not increase even if the required monthly payment is less than the accrued interest).

- Married borrowers who file separate returns won't have to include their spouse's income into their repayment calculation; and

- Borrowers with $12,000 or less in federal student loans will see any remaining debt forgiven after 10 years of repayments.

While the SAVE Plan certainly falls far short of its predecessor's sweeping scope, many loan recipients will likely see their monthly bills cut in half next year (once fully implemented). In addition, the White House also announced an 'on-ramp' repayment program scheduled to run from October 1st, 2023 through September 30th, 2024.
The program is designed to prevent financially vulnerable borrowers who miss one or more monthly payments from being reported to credit bureaus as delinquent, placed in default, or referred to debt collection agencies.

Obviously, the situation remains highly fluid and many pundits expect Republicans to once again challenge this new program through the courts. We will keep you apprised of any future developments. But in the meantime, if you have any questions regarding your family's student loan debt repayment status, please reach out to your SEIA advisor.

Signature Fund *for* Giving

SEIA is thrilled to honor two remarkable individuals, Hayley Wood Bates and Chad Bates, for their outstanding contributions as volunteers at A Place Called Home (APCH), a nonprofit dedicated to empowering underserved youth in South Central Los Angeles.

As a valued client of SEIA, you are likely aware of our commitment to giving back through our Signature Fund for Giving. This fund provides essential support to local nonprofits, such as APCH, which focuses on creating a safe and nurturing environment for young individuals facing challenges in their lives.

For nearly ten years, Hayley and Chad have dedicated themselves to APCH's mission, becoming invaluable mentors for countless young individuals and embodying the core values of SEIA's commitment to community engagement. In recognition of their efforts, Hayley and Chad were elected as the organization's Volunteers of the Year in 2022.

We extend our heartfelt gratitude to Hayley and Chad for their remarkable service and inspiring dedication to creating a brighter future for the youth in our community. Their impact is a testament to the power of compassion and collective action in transforming lives for the better.

If you have any questions regarding our fund or how to participate, we invite you to contact Hayley Wood Bates at 310-712-2323 or hwood@seia.com.

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