Brave New World of Artificial Intelligence

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There has been much in the media during the last two weeks about artificial intelligence (AI). The capital expenditure plans are enormous for data centers, energy infrastructure to provide power for the data centers, and software development.

On January 21, the day after President Trump's inauguration, Masayoshi Son of SoftBank, Sam Altman of OpenAI, and Larry Ellison of Oracle met President Trump at the White House. Their ambitious artificial intelligence joint venture, called Stargate, plans to invest $100 billion per year for 5 years. The investment plans are beyond the financial capability of the three entities.

Elon Musk, an early OpenAI investor and board member, sued OpenAI last year to stop its plans to convert itself into a for-profit business. Musk believes that OpenAI betrayed its founding aims as a nonprofit research lab to benefit the public good. Musk posted a message on social media platform X that "They (Stargate partners) don't actually have the money" and that SoftBank had well under $10 billion of financing secured for the project. OpenAI raised $6.6 billion in October 2024 according to Barron's, but it is not clear how much of that is available for Stargate. Oracle has $11 billion in cash but also has $88 billion in long-term debt. So, the three Stargate partners will have to raise a huge sum of money from investors or obtain grant money from the federal government.

Ed Dowd, former portfolio manager at BlackRock and founding partner of Phinance Technologies, was recently interviewed by Neil Oliver. Dowd believes the problems of artificial intelligence are more fundamental and thought that Donald Trump made a huge mistake by appearing to endorse the hype of the Stargate project. Dowd and his partner, Carlos Alegria, describe AI as basically, a "very advanced language compiler." Furthermore, Dowd said that Chat GPT is violating copyright law by stealing the copyrighted work of others and "that business model doesn't work."

NVIDIA Corp (NVDA) has been the largest beneficiary of AI development, but Dowd believes it has a serious problem because a large portion of their customers "are negative free cash flow startups getting financing from private equity using NVDA chips as collateral."

Dowd offered his opinion on the future of AI:

> All these billions of dollars of investment remind me of the dot.com boom, way ahead of itself. We're going to see a lot of hype, stranded investment. Because right now, there's no revenue model for AI. Nobody's making any money. There's been billions of dollars in investment for a technology that doesn't have any revenue stream.

On Monday, January 27, investors took notice of China's DeepSeek, a free, open-source competitor to OpenAI's ChatGPT. Below are some of the comments from analysts:

Goldman Sachs analysts Jeremy Elster:

> For a lot of complicated reasons, it's (DeepSeek) basically a huge upgrade to effectiveness of inference. By some measurements, 40-50x more efficient than other models. If you can do more with less it naturally leads the question to whether you need so much capacity.

Bloomberg's Mark Cudmore on an interview with Bloomberg TV:

> It (DeepSeek) undermines the immense amount of money that's been spent on hardware by the US mega-cap stocks...Now that this is open-source, it really makes it very unlikely that they're going to justify the return on investment, given that there's a much cheaper alternative for the world to use….It deeply undermines the massive premium that we pay for US mega-cap stocks…. I think it is the catalyst to end 15 years of US stock market exceptionalism.

Jefferies analysts told clients:

> Concerns have immediately emerged that it (DeepSeek) could be a disruptor to the current AI business model, which relies on high end chips and extensive computing power and hence energy.

Dr. Gerry Beyer, Professor of Law at Texas Tech, made an informative presentation about AI use in the legal profession to the Southern Arizona Estate Planning Council last week. He recommends that users of AI should "trust but verify" as President Reagan advised. Professor Beyer posed the following question to 3 AI providers, Bard (now called Gemini), Lexis+AI, and Westlaw's Ask Practical Law AI: "In Texas, can an incompetent person revoke a power of attorney?"

Of the three AI providers, only Westlaw's Ask Practical Law AI responded with an accurate answer. Generally, in Texas, a power of attorney cannot be revoked by an

incompetent person. However, a medical power of attorney can be revoked without regard for the person's competency. Lexis+AI did not make a distinction between medical and financial powers of attorney in its response, but was somewhat accurate. Bard responded with the general rule but did not mention a medical power of attorney. When asked for statutory or case authority, Bard cited a statute that never existed and cases names that were either fictitious or not relevant to the question. Apparently, some "generative AI" may refer to the ability to generate fictitious information.

Many courts have recognized the potential problems of AI, and a growing number of courts are requiring attorneys to disclose whether AI was involved in drafting pleadings or briefs. Some courts require attorneys to sign an affidavit stating that they have confirmed the accuracy of all statute and case citations. While AI may save people some time on certain tasks, it should be used carefully.

If you have any questions or comments, please contact me.

Sincerely,
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