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Stock prices were jolted lower in late January on concerns that a “black swan” event may lead to some restructuring in the artificial intelligence (AI) industry.

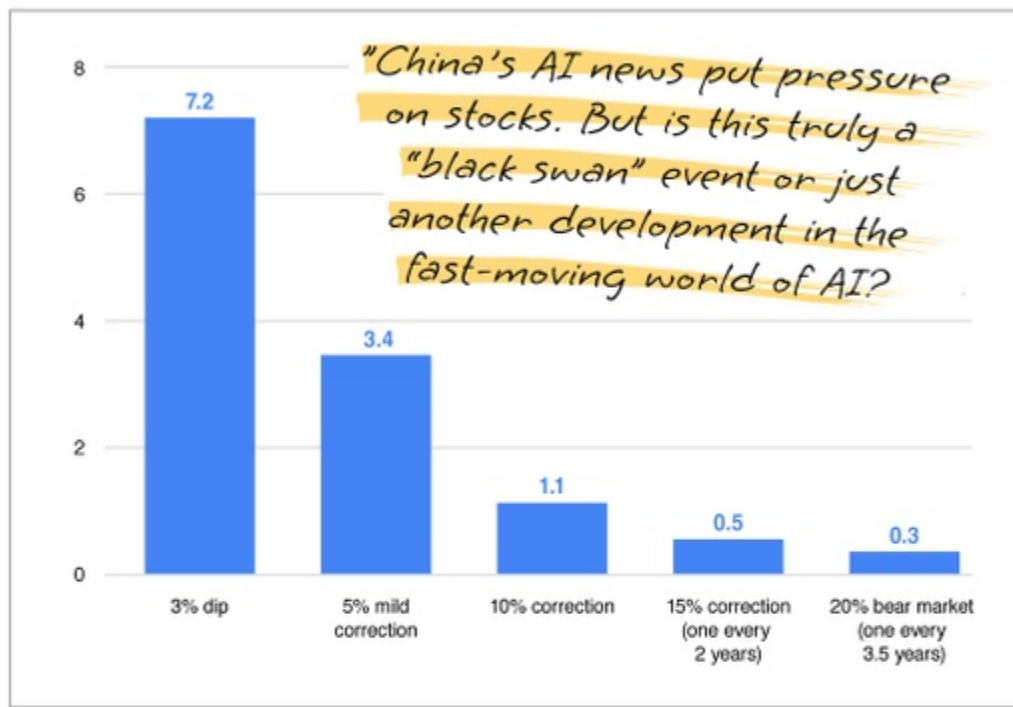
A Chinese AI firm appears to have developed a competitive AI model that performs as well as its Western counterparts at a fraction of the cost. The news put pressure on AI stocks, which have led the stock market for the past few years. In fact, many of the largest companies in the S&P 500 have made significant commitments to AI in recent years.

Any time stock prices jolt lower, it can be an unsettling event. Remember, the stock market is a discounting mechanism, meaning today’s stock prices reflect all available information, including present and potential future events. A “black swan” event can be consequential because it introduces new information that the stock market didn’t anticipate.

But keep a couple of things in mind as you hear the news reports. Volatility is part of the investing process. The following table shows that investors should expect pullbacks of 3 percent more than seven times a year. And almost four times a year, stocks retreat 5 percent. From a historical perspective, recent market activity isn't as abnormal as one might think.

Black Swan Event?

Standard & Poor's 500 various declines per year since 1928



Source: Carson Investment Research, 2024

The S&P 500 index was introduced in March 1957, when it was expanded from 90 companies to 500 and renamed the S&P 500 Stock Composite Index.

The S&P 500 Index is an unmanaged index that is considered representative of the overall U.S. stock market. Index performance is not indicative of the past performance of a particular investment. Past performance does not guarantee future results. Individuals cannot invest directly in an index. The return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.

Another thing to keep in mind is that Wall Street traders tend to move to a “risk-off” position when this type of information comes out. My expectation is that stock prices will continue to adjust as the China AI story unfolds, so it’s best to prepare for a bumpy ride for the next few weeks and months.

Finally, a number of companies are reporting Q4 results in the next few weeks. I anticipate some will speak to the AI event and its implications for the industry. I’ll keep you posted if there are any developments.

Remember, when we created your portfolio, we anticipated periods of market volatility. Let’s give the market time to process the news and see if this is truly a “black swan” event or just another development in the fast-moving world of AI.

CNBC.com, January 27, 2025. “Nvidia hits new low for session, dropping 17% on threat from China’s DeepSeek AI model”



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