PacificCPE

COURSE
82003B

AI-Driven Strategies: Smart Investment Tactics

CPAs and tax professionals will find a lot to work with here. The course opens by examining how AI can sharpen economic analysis, then moves into broader financial planning concepts and long-term strategies around retirement and estate planning. The final chapter zeroes in on tax considerations—and with five separate risk warnings, it's clear this is territory that demands careful attention. If you're advising clients on investments or tax strategy, this course connects AI capabilities directly to the planning challenges you face every day.

CREDIT HOURS **2** | FIELD OF STUDY **BUSINESS** | EXAM QUESTIONS **10**

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LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recall the various methods used to calculate Gross Domestic Product (GDP).
- Recognize the stages of the financial planning process.
- Recall the characteristics of estate planning and probate.
- Identify how the wash-sale rule works.

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Chapter 1: USING AI FOR ECONOMIC ANALYSIS

Chapter Objective

After completing this chapter, you should be able to:

- Recall the various methods used to calculate Gross Domestic Product (GDP).

Understanding the economy and financial markets may sound too unwieldy to deal with, especially when you hear the mind-numbing jargon that comes with the topic. But you should grasp some of the major points covered in this chapter because the good and bad of the economy's moves will have a huge impact on your financial life — your investments, business, career, retirement, and other life issues depend on how you navigate it.

Fortunately, you've got AI and lots of positive possibilities than can go with it. Imagine if you had learned about what was happening with the economy in 2007 and made some moves that would've avoided the pain of 2008.

GROSS DOMESTIC PRODUCT (GDP)

Remember

Gross Domestic Product (GDP) is essentially the gross output of goods and services by the nation over a given period or time, typically quarterly and annually. If this number is growing, it's a net positive for the country, and it bodes well for the stock market. If the number is flat or shrinking, it bodes poorly for the country and is not considered a positive for the stock market.

Defining GDP

First, let's get AI's take on this (I used ChatGPT). Here is the question (prompt):

> "What is GDP and what are the key points that investors should know about it? Please provide answers in detailed bullet points with an explanation of each."

ChatGPT's response is in Figure 13-1 (drumroll please).

FIGURE 13-1: EXPLAINING GDP.

ChatGPT's Response

ChatGPT

Gross Domestic Product (GDP):

GDP is a critical economic indicator that measures the total value of all goods and services produced within a country's borders over a specific time period. It serves as a comprehensive gauge of a nation's economic health and performance.

Key Points for Investors:

1. **Definition and Components:**
   - **Explanation:** GDP is the sum of consumption, investment, government spending, and net exports (exports minus imports). It can be expressed as GDP= C +I+ G + (X • M), where C is consumption, I is investment, G is government spending, X is exports, and M is imports.
2. **Three Approaches to Calculating GDP:**
   - **Explanation:** GDP can be calculated using the production approach (sum of value added), income approach (sum of incomes earned), and expenditure approach (sum of expenditures).
3. **GDP Growth Rate:**
   - **Explanation:** The percentage change in GDP from one period to another indicates economic growth or contraction. Positive growth rates are generally favorable for investors as they suggest a growing economy, while negative growth rates may signal economic challenges.
4. **Leading Indicator of Economic Health:**
   - **Explanation:** GDP is considered a leading indicator of a country's economic health. Investors often use GOP data to assess the overall direction of an economy and make informed decisions about investment strategies.
5. **Impact on Financial Markets:**
   - **Explanation:** GDP data releases can influence financial markets. Higher-than-expected GOP growth can lead to positive investor sentiment, driving stock markets higher. Conversely, lower-than-expected growth may lead to market declines.
6. **Sectoral Analysis:**
   - **Explanation:** Investors should consider the sectoral composition of GDP. A growing economy may not benefit all sectors equally. Analyzing which sectors are driving GDP growth can guide investment decisions, as certain sectors may outperform others.

7. **Inflation and GDP:**
    - **Explanation:** Inflation is a key factor influencing GDP. Investors should consider real GDP (adjusted for inflation) to understand actual economic growth. Inflationary pressures can erode the real purchasing power of consumers and impact investment returns.
8. **Employment Implications:**
    - **Explanation:** GDP growth is closely linked to employment trends. Robust economic growth tends to lead to job creation, which can positively impact consumer spending and corporate profitability.
9. **International Comparisons:**
    - **Explanation:** Investors often compare GDP growth rates across countries to identify investment opportunities. Countries with strong and stable economic growth may attract foreign investment, while slowing growth rates could raise concerns for investors.
10. **Recession Indicators:**
    - **Explanation:** A decline in GDP for two consecutive quarters is often considered a technical recession. Investors should be aware of recessionary signals, as they can impact various asset classes and investment strategies.

Understanding GDP and its implications is crucial for investors as it provides a broad overview of a country's economic performance, helping them make informed decisions about asset allocation, risk management, and overall investment strategies.

The breakdown of GDP in Figure 13-1 is a good one. The primary points to keep in mind is that GDP is the overarching aggregate of what an economy produces and that it is a leading economic indicator. This means that when the economy is expanding today, it bodes well (more growth and potential prosperity) for tomorrow. Given that, GDP is a generally positive harbinger for the stock market. Why? When the economy grows, businesses tend to grow and become more profitable. If profitability grows, the value of the enterprise grows, which tends to have a positive effect on the stock of that particular enterprise (if it is a public company).

Delving into the details

When you have a grasp of the "big picture" on GDP, you can get more specific with investment ideas so you can drill down and narrow your search for appropriate strategies. Here's another prompt for example:

> "List five specific investments that do well when GDP is rising and explain why for each one."

Figure 13-2 gives you the scoop from ChatGPT. As the GDP expands, those things dependent on a growing GDP (such as businesses) tend to do well. In this regard, the stock of companies that are public tend to do well. This is why stocks in general are listed as a specific investment that will do well. Figure 13-2 also points out a subset of stocks called “cyclical stocks,” which is a reference to the stocks of companies that do well when GDP is growing such as travel, hospitality, and restaurant companies. When consumers do well and the economy is growing, they tend to spend more on discretionary items such as eating out, entertainment, and so forth.

FIGURE 13-2: INVESTMENTS TO CONSIDER WHEN GDP IS RISING.