



CIO decided to ask ChatGPT - the large language model that was developed by OpenAI - a question that comes up frequently in the lead-up to tax season. (UBS)

Can Artificial Intelligence help investors make investment decisions?

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As a test, we decided to ask ChatGPT—the large language model that was developed by OpenAI—a question that comes up frequently in the lead-up to tax season.

Here is what we asked, along with the model's response:

Question: I have a tax bill coming up. Should I sell from my portfolio, or take out a loan?

Answer: The decision to sell investments or take out a loan to pay taxes depends on your personal financial situation and goals. Here are a few things to consider:

1. Investment performance: If you sell investments to pay the tax bill, you could be triggering capital gains tax and reducing the overall value of your portfolio. Additionally, if you sell at a time when the market is down, you may not recover your losses.

2. Loan terms: If you decide to take out a loan, it's important to consider the interest rate, repayment terms, and other fees associated with the loan. Make sure you understand how these will impact your overall financial situation and whether you'll be able to repay the loan in a timely manner.

3. Emergency funds: If you have sufficient emergency funds, it might be a good idea to use those instead of taking out a loan or selling investments. This way, you can keep your investments intact and avoid paying additional interest on a loan.

4. Tax implications: Consider the tax implications of both options. Interest paid on a loan may be tax-deductible, but you may have to pay capital gains tax if you sell investments.

Ultimately, the best option for you will depend on your individual circumstances and financial goals. I would suggest consulting a financial advisor to help you weigh the pros and cons and make an informed decision.

Our thoughts on the AI response

Like other large language models, ChatGPT is quite good at providing human-like responses—providing insights that are similar to browsing a few search results—but it doesn't always give a complete or accurate answer. Often, the AI response reflects less-than-reputable or outdated sources.

In this case, the AI response is a good start, but it doesn't include any historical or statistical analysis, and it overlooks a few considerations that we think are important. For example:

- Risk tolerance
- Expected cash flow
- Interest rate outlook
- Time horizon
- Investment strategy
- Liquidity

Bottom line: If you need cash from your portfolio for spending—tax bill or otherwise—it may make sense to borrow instead of selling your assets. Borrowing strategies may be more attractive if you have a well-diversified portfolio, significant unrealized capital gains, and/or expected income that will help you to pay down the loan balance in the next few years.

Nevertheless, we will agree with ChatGPT on at least one point: You should talk with your financial advisor to make an informed decision based on your personal circumstances.

For more, see the full blog, [Should I borrow to pay taxes? Let's ask the AI and the experts](#), published 21 February, 2024.

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