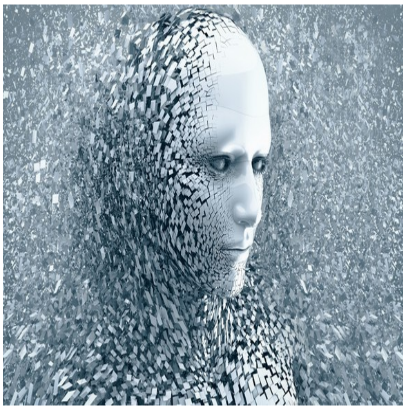

AI Development Is Critical for These Stocks in 2018

Description

Facebook Inc. (NASDAQ:FB) founder and CEO Mark Zuckerberg sat down last week in a highly publicized congressional hearing. Zuckerberg has been under immense pressure since the data scandal surrounding Cambridge Analytica broke several weeks ago. The Facebook founder apologized for the oversight and said that the company would be more focused on its "social responsibility" going forward.

Zuckerberg boasted about the development of Facebook's artificial intelligence (AI) in identifying "extremist content and hate speech." Reportedly, Facebook AI algorithms are able to find and delete 99% of terrorist propaganda and recruitment efforts posted by al Qaeda and the Islamic State in Iraq and Syria (ISIS). However, Zuckerberg said the system was still five to 10 years away from software being able to eliminate all examples of "hate speech" and even "verbal assault."

Facebook made changes to its platform in the aftermath of 2016 that aimed to degrade the prevalence of alternative news and simultaneously divert users to so-called authoritative content such as *The New York Times* or *The Washington Post*. It has also sought to discourage the "passive consumption of content" in an attempt to encourage "meaningful connections." In the fourth quarter, Facebook saw its monthly active users fall in U.S. and Canada for the first time since being publicly listed. Growth in daily active users was the slowest since 2015.

Shopify Inc. (TSX:SHOP)(NYSE:SHOP) has taken a dramatic hit since the data scandal broke. Shopify stock has dropped over 26% since reaching an all-time high of $202.45 in late March. The company was once again targeted by short seller Andrew Left of Citron Research. Left said that Shopify could see its business negatively impacted, as it relies on traffic from Facebook's channels.

Shopify uses customer and operational data to optimize its e-commerce platform. The company has established itself among Canada's top tech companies as an early adopter of AI technology. The use of large tranches of consumer data allow for new and improved services and outcomes for Shopify and other e-commerce platforms. If its ability to collect data is hindered in any way, either by changes to private or public policy, Andrew Left believes that this could endanger its business model going forward.

In the wake of the Cambridge Analytica data scandal, I'd focused on **Kinaxis Inc.** (TSX:KXS), as AI development could also be crucial to its development going forward. Kinaxis is an Ottawa-based, cloud-based subscription software company that specialized in optimizing supply chain solutions for its global customer base. Shares of Kinaxis have climbed 6.1% in 2018 so far.

Kinaxis has sought to develop its AI in order to identify trends in operational data as well as streamlining general issues that could see the development of self-healing supply chains. In 2017, Kinaxis saw gross profit rise 17% to $93.5 million, and adjusted EBITDA climbed 40% to $40.1 million.

Which stocks should you buy or sell right now?

Facebook leadership has warned that its profitability could be negatively impacted in the short term as it tinkers with its platform. Shopify could be the victim of blowback from changing policies at Facebook and other social media giants. Public officials are also exploring the possibility of further legislation on data collection, which is a cause for concern for companies like Shopify going forward.

Kinaxis remains an attractive long-term addition to any portfolio. Its stock has dipped 5.6% in the midst of broader weakness on the TSX, which may provide an opportune entry point for investors.

CATEGORY

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aocallaghan