

Insights Into Investing from "Zero to 1"

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Investing in emerging technologies isn't for the faint of heart. This reality became abundantly clear when two leading companies in the Space and Artificial Intelligence (AI) industries experienced both literal and figurative combustible moments last week.

In the literal sense, Elon Musk's SpaceX launched its highly anticipated next-generation megarocket, dubbed "Starship," into orbit on Saturday for its second-ever test flight. However, the mission did not go as planned, as the rocket's onboard system intentionally self-destructed seven minutes into its ascent.

In the figurative sense, OpenAI, a leading player in Artificial Intelligence renowned for the development of ChatGPT, parted ways with its CEO, Sam Altman, on Friday. This separation was equally parts surprising and newsworthy, with the ensuing chaos in the wake of his ouster quickly becoming a top story.

On Monday, Bloomberg reported that nearly all staff members at OpenAI threatened to leave following Altman's dismissal. In an unexpected turn of events, Microsoft, one of OpenAI's top investors, extended an offer for Altman to lead AI development at the company. However, after significant consternation and chaos, Altman was reinstated as CEO of OpenAI just in time for the Thanksgiving holiday.

Nearly All of OpenAI Staff Threaten to Go to Microsoft If Board Doesn't Quit

- Majority of OpenAI employees sign letter seeking new board
- Board member Ilya Sutskever is among the signatories

Sam Altman, OpenAI Talks to Negotiate H

- In one scenario, Altman would join a
- CEO Shear has asked board for pro

Source: Bloomberg

Navigating Volatility

These stories serve as an important reminder that investing in emerging technology often comes with inherent volatility and uncertainty. Most emerging technology entrepreneurs and investors understand this uncomfortable reality and forge ahead despite a long list of likely roadblocks and setbacks.

Peter Thiel, renowned entrepreneur and investor, wrote a book in 2014 titled "*Zero to One: Notes on Startups, or How to Build the Future*." At a high level, the premise is that there are two types of innovation: 1 to n or zero to 1. He proposes that if you take something that exists and improve upon it you go from 1 to n. However, if you create something new that hasn't existed before, you go from zero to 1.

Nearly all companies at the forefront of innovation building emerging technology sit somewhere along the zero and 1 continuum.

Key Considerations for “Zero to 1” Investments:

“Zero to 1” investments are not meant for everyone. For example, those in their retirement years often need predictable income and cash flow – which is not a feature of “zero to 1” investments. However, those that are willing and able to allocate a portion of their portfolio to emerging technologies should consider three things before doing so:

1. Volatility is a forgone conclusion.

The rapid pace of technological advancements ensures that volatility is a constant companion. SpaceX's Starship incident and the upheaval at OpenAI highlight that the journey from zero to 1 is rarely a smooth trajectory.

2. Success is not achieved overnight.

Peter Thiel's concept of going from 1 to n implies incremental improvements to existing technologies. However, true breakthroughs, represented by going from zero to 1, take time. Investors must be patient and understand that genuine success in the emerging tech landscape is a long-term endeavor.

The story of Nvidia is a perfect example of this journey. The company nearly went bankrupt three separate times after several failed go-to-market attempts. However, today, Nvidia is one of the most valuable companies in the world.

3. Last can be first.

While true innovation sits between zero and 1, oftentimes those innovating and iterating between 1 and N have significant advantages. For example, Myspace was the first social network to reach a global audience in mid-2003 and was the largest social networking site in the world until 2009. However, Facebook iterated on Myspace's platform and popularity and has become the true winner in the space. In other words, first mover advantage does not always translate into commercial success and longevity. Therefore, both n to 1 and zero to 1 have their own investment merits.

Conclusion

As the stories of SpaceX and OpenAI continue to evolve, one undeniable truth remains – the world of emerging technology is a dynamic and constantly-shifting landscape, and those who invest in it must be prepared for the unexpected. Embracing this uncertainty and navigating the volatility becomes not just a challenge but an essential aspect of investing from zero to 1. Success may not follow a predictable path, but those who persevere may be rewarded with redefining the future of technology and innovation.

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