

“The Algorithm Made Me Do It”

December 31, 2018

In her book, Signals, How Everyday Signs Can Help Us Navigate the World’s Turbulent Economy, Dr. Pippa Malmgren, devotes a chapter (titled, “The Algorithm Made Me Do It”) to the dangers of algorithms and preprogrammed formulas replacing human reasoning. Algorithms are sophisticated calculations, but require thoughtful inputs.

A December 25, 2018 Wall Street Journal article, “Herd Like Computer Trading Behind the Market Swoon,” by Gregory Zuckerman, got me to thinking. The quote: ***Behind the broad, swift market slide of 2018 is an underlying new reality: Roughly 85% of all trading is on autopilot – controlled by machines, models, or passive investing formulas, creating an unprecedented trading herd that moves in unison and is blazingly fast.***

However, computer trading is not new. My first experience with computer trading was October 1987, 30 years ago, when the market crashed 32% in a single day. Regulators subsequently installed “circuit breakers” designed to temporarily stop trading. Today’s computer trading is perhaps more sophisticated, using artificial intelligence. They can trigger buying as quickly as they can trigger selling. This year I read an artificial intelligence article in Forbes magazine where Rick Rieder, Blackrock’s Chief Investment Officer of Global Fixed Income was discussing how Blackrock was using artificial intelligence to quickly gather news and economic developments to trigger trading. Blackrock is one of the largest asset managers in the world.

My take is this. ***The human condition cannot react, respond, nor adapt as fast as the computer models can trade. As investors, however, we can do just the opposite of the computers. We can slow down, think, and reason that we have our own preplanned strategies that do not involve trading the market.***

As an investor, you have your own algorithms: innate intelligence, reasoning and access to financial planning programs. Your algorithms do not need to be fast, only true. Slowing down and having conversations with your friends at Davidson Wealth Management can transcend the short-term and unpleasant noises of algorithmic trading. Our conversations and meetings with you are intended to help reaffirm that your life and your money are in alignment. We help you using Envision®; your personal financial dashboard (powered by algorithms, by the way). We use the Envision dashboard to help make sure you and your finances are on track towards your destination, your life’s purpose, for which the investments are intended.

Don’t panic and blame it on the algorithm. As an investor, you discern things better than algorithms. You have a life that matters and a purpose around which your money is invested. Additionally, you have us.



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