

## Client's Corner

### ARTIFICIAL INTELLIGENCE VERSUS HUMAN NATURE:

# The Machines Aren't Winning

IT WAS JUST 15 YEARS AGO IN 2008 THAT THE FIRST TWO serious attempts to create a robo-advisory investment platform debuted in this country. If you—as a well-informed investor—cannot immediately name either, you may already sense where this essay is going.

On its most basic level, the idea of robo-advisory was that you would answer a programmed list of questions asked by the algorithm about yourself—income, net worth, goals, risk tolerance and so forth—and the algorithm would give you back your ideal investment portfolio.

The great advantage of such an approach was held to be that you thereby discovered your most efficient portfolio even as you eliminated the cost of a human financial advisor. Its proponents—at least as far as I was able to determine—were rather less forthcoming concerning the inarguable fact that, in eliminating the cost of an advisor, you also eliminated his/her experience, judgment, emotional intelligence, empathy and capacity to care genuinely about you and your family. And that wasn't even the real issue.

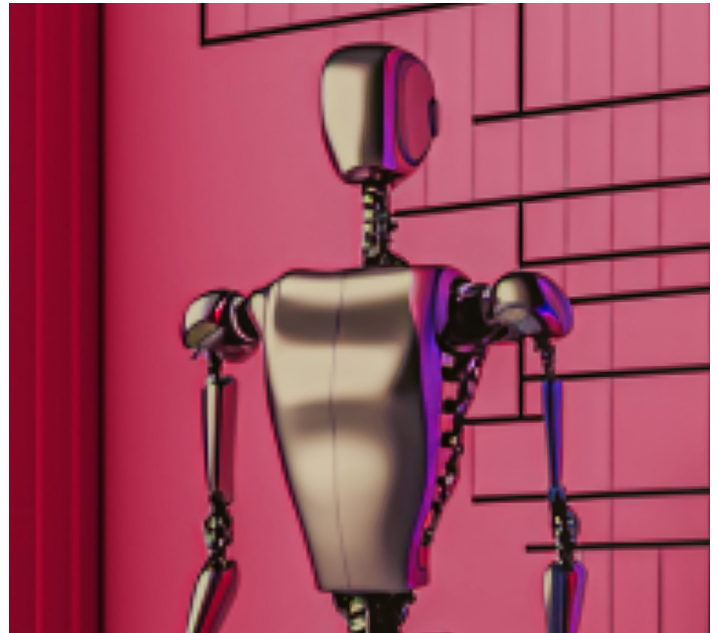
The real issue was that an algorithm can't override the investor's basic human nature. And since it is human nature which is the dominant determinant of long-term, real-life investment outcomes, this was *and remains* the fatal flaw in any kind of programmed investing.

The day will inevitably come when the machine wants the investor to increase his exposure to quality equities as their prices crash, for example, even as all his human nature is screaming at him to get out of the market and go to cash. Or the machine starts systematically lightening up on whatever market sector is currently soaring and reinvesting the proceeds in cyclically lagging areas, when all human nature wants to do is pile into that hot sector.

On that day, human nature will just reach over and...turn off the machine. Because when a supremely rational algorithm collides with essential human temperament—as it inevitably must, early and often—human nature will win. Which is to say: the investor will lose, *in spite of himself*.

One mentions this because today, one hears on every side that artificial intelligence will ultimately be the effortless key to successful investing—finally liberating us all from the expensive inefficiencies of a financial advisor. Allow me to ask, as gently as possible: who will then liberate us from our own human nature?

Who will enable us to override our mounting terror as equity prices fall, so that we may eagerly step up our buying program when the headlines are announcing the onset of Armageddon?



**When a supremely rational algorithm collides with essential human temperament, human nature will win.**

Who will keep us prudently diversified when financial journalism lionizes some fund manager no one's ever heard of who is outperforming the S&P 500 by multiples, investing in a market segment we don't begin to understand? Please treat these as the rhetorical questions they are.

And please forgive me, but: when artificial intelligence evolves to the point where it can be implanted in the human brain—there to override our limbic system with all its extremes of both terror and excitement—I'll get really interested in it.

Until then, I'll cling to the belief that the most reliable brake on an investor's worst (that is, most human) instincts is an advisor whom you trust, and who clearly cares about you, saying—at those critical moments in your investing lifetime—*"You really don't want to do that."*

© October 2023 Nick Murray. All rights reserved. Used by permission.