AI and the Game of Markets

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How Does a Horse Run?

Frederic Remington, *A Dash for the Timber* (1889)

For illustrative purposes only.
How Does a Horse Run?

Leland Stanford

Eadweard Muybridge
How Does a Horse Run?

The Unromantic Truth

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AI Processes (Visualizes) Unstructured Data

*AI lets us ask better questions.*

Even if the answers are unromantic!
Another Unromantic Truth

Quality factor useless since QE began

Source: Bloomberg L.P., as of 4/5/2018. For illustrative purposes only.
How Does a Market Run Without Quality?

Central banks have purchased more than $20 Trillion of financial assets, lifting the price of ALL financial assets.

How does that work?

Source: Bloomberg L.P., as of 12/19/2017. For illustrative purposes only.
Central Bankers Call it Communication Policy

“...but I think the Fed’s need to educate and explain will only grow.”
— Ben Bernanke, November 19, 2013
Game Theory Calls It Common Knowledge
And Our Missionary-in-Chief
The Power of the Crowd Watching the Crowd

For illustrative purposes only.
Use AI to Visualize Missionary Narratives
Use AI to Visualize Narrative Networks

Text Analytics Background

Quid reads any text to identify key words, phrases, people, companies and institutions.

Then it compares words from each document to create links between them based on similar language.

Quid repeats the process at immense scale, producing a network that shows how similar all the documents are to one another.

Source: Quid, Inc. For illustrative purposes only. Past performance is no guarantee of future results. Quid, Inc. is not an affiliate of Salient. Software used under license.
What Does the Mexico Narrative Look Like?

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What Does the Trump Narrative Look Like?

Bloomberg Narrative re: Trump Election week T-5 to T-2

Bloomberg Narrative re: Trump Election week T-1

Bloomberg Narrative re: Trump Election week T+1

Source: Quid, Inc. For illustrative purposes only. Past performance is no guarantee of future results. Quid, Inc. is not an affiliate of Salient. Software used under license.
What Does the Inflation Narrative Look Like?

- Fed (20%)
- Treasuries (11%)
- Trump (9.2%)
- labor (7.7%)
- econ data (2.1%)
- gold (5.0%)

Source: Quid, Inc. For illustrative purposes only. Past performance is no guarantee of future results. Quid, Inc. is not an affiliate of Salient. Software used under license.
What Does the Inflation Narrative Look Like?

Fed (12%)
markets (10%)
strategists (9.1%)
Treasuries (6.2%)
labor (5.6%)
dollar (5.0%)
health care (3.0%)
gold (3.6%)
retail sales (4.2%)
editorials (4.5%)
housing (4.2%)
US econ data (2.2%)
movements (10%)

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The Evolution of Market Technology

For illustrative purposes only.
AI Doesn’t Replace Humans - It Saves Them

For illustrative purposes only.
AI Doesn’t Replace Humans (Yet)

\[ n^2 \text{ vs. } 2^n \]

1,000 squared is 1,000,000
2 to the 1,000\(^{\text{th}}\) power is 1 with 300 zeros
What To Do? Think Critically

Don’t Be the Sucker at the Table
What To Do? Think Differently

Agnostic, Narrative-Aware Portfolios

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