The Uptrend in Equity Markets Has Ended, Economic Growth Has Not

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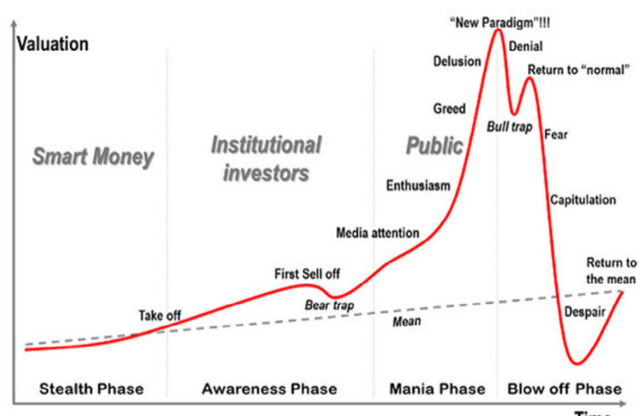
Navigating a complex market

Information asymmetry remains at the heart of successful alpha strategies in equity markets. Some people have the information they need for better decisions, other people miss the opportunity entirely.

Sophisticated innovations in Artificial Intelligence level the playing field for wealth and fund managers in an environment where global banks and colossal funds have historically leveraged capital and PhDs to gain an advantage. Opportunities now exist to make smaller players the beneficiaries of such capability.

With AI, massive structured and unstructured data sets in US equities are analyzed daily across infinite scenarios involving tens of millions of simulated trades. From there wealth managers are in a better position to use resulting analysis to decide on strategy, reduce risk, and capture alpha outcomes. Consequently, as you ask better questions about what's working in the markets, you get better answers.

Yet, understanding overall trends in the market and crafting a coherent investment response remains essential.



Source: MarketWatch, Dr. Jean-Paul Rodrigue, Hofstra University

Where the market is headed as of August 2019

Currently, analysts are focused on earning prospects which appear favorable. Stock prices, however, do not look favorable as we roll into the back half of 2019. The power of the default up trending market is over. American stock market indices produced a double top and recently broke their 200 day moving averages. 60% of the stocks in the NASDAQ composite are in downtrends. A narrow group of stocks made new highs when the indexes hit their highs. History shows that stocks peak 12–18 months before earnings peak when a major top occurs.

There has been a pop and drop market environment for some time now, demonstrating a need for better tools.

What tact should we take?

One example provides a hint on how to prepare for what may come: Bridgewater Associates, LLC. The asset allocator managed the top performing hedge fund in 2018.

Guess what? This manager is much more sophisticated than one would consider an asset allocator to be. Artificial Intelligence (AI) is a core contributor to Bridgewater's success.

Risk management is a necessary part of money management, but a bull market hides a great many sins. Advisors without a clear plan for risk control will not be successful in the years ahead. When the stock market has risen consistently it is difficult for a money manager to differentiate the firm's track record from other large diversified portfolios and indexes. Thus the constant pressure to reduce fees.

In a declining market a manager with excellent risk management techniques and a focused portfolio stands out. The reverse of this is that a manager without risk management in place may expect a great deal of litigation costs in the years ahead as well as an intense migration of funds out of the firm.

Bottom line: Managers must plan out market correction scenarios across multiple timeframes and identify the means in which they will determine when decisions, that will define their 1-year, 3-year, and 5-year performances, must be made. Machine learning AI making sense of the market movements will prove to be a key differentiator in who survives and who does not. ■

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