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$1.4B Merrill Team Taps AI Tool for Equity Bets

By Richard Henderson February 8, 2017

A $1.4 billion Merrill Lynch team has turned to an artificial intelligence stock picking tool to help guide its client accounts.

The San Diego-based Hegardt Group uses technology from **Trade Ideas** to offer input on stock selection, a task which its three-person investment team does in addition to relying on home office guidance, says group member **Michael Steelman**, advisor and senior v.p. for Merrill.

"We're a really large team with a full-time portfolio manager. There are a few teams like us in the private bank model, but with 15,000 advisors at Merrill, there's not many doing what we do," he says.

"I think more importantly with the fiduciary rule, I don't think Merrill wants financial advisors managing money – and I would guess the same for UBS or Morgan Stanley," he says, adding that the models provided by home offices are high-quality. "But [using the AI tool] does lead us to ideas – maybe a company or stock we haven't thought about which then leads us to do our own due diligence and fundamental analysis and then take a position."

The tool has shown promise in identifying small-cap stocks that fall through the sieve of Wall Street analyst coverage, he adds. "They get onto stuff where there's something going on and it alerts us and we can do our own due diligence."

The AI system, called "Holly," is designed as an "automated analyst" and distills masses of structured data, such as stock fundamentals and market performance, and unstructured data, such as social media and news reports, explains **David Aferiat**, co-founder and managing partner for Trade Ideas. It then crafts a set of instructions based on an algorithm that portfolio managers, analysts, or, as in Steelman's case, financial advisors, can follow with suggestions about what stocks to buy or sell, when, and with specific limits, he says.

The firm claims a simulated long/short equity strategy that followed all Holly instructions generated 52% returns for 2016. Aferiat notes one key driver of performance was its ability to exit a stock at the right time.

"The percentage of winning trades is 52%, so the return comes from the fact that when [the system is] losing it keeps those losses small while it lets the profits from each day run," he says.

The firm is pushing to market the product to institutional asset managers in addition to financial advisors and the retail market. He says financial advisor clients have used the tool as an additional layer of insight on client accounts.

"For advisors… you'll get a read out of special algorithms and a view of the market as it relates to holdings of their clients' specific stocks," Aferiat says.

Artificial intelligence technology is also making inroads on other parts of the wealth management industry.

AI, machine learning and big data are all hallmarks of a new breed of technology designed to help financial advisors provide faster, more relevant advice to a larger number of clients, says **Tej Vakta**, global wealth management solution head at Capgemini **Financial Services**, a consultant and tech provider.

"If you're talking about the advisors and planners, it's more about complementing them and making them more efficient. As we speak, we're producing more than a million high-net-worth individuals every year globally [with] a million USD of investible assets… one of the biggest issues [wealth] firms are having is they're not able to find and attract skilled workers… You need to empower them with tools," he says.

One global bank Vakta has worked with is attempting to increase its advisor-client ratio, which stands at around 1:55, by seven-fold, using this type of technology to tap mass affluent clients it believes will become millionaires within five to ten years.

"The banks want to go after these [clients] but have a limited workforce [and are asking] what are the different things they can do with machine learning, with automation, with large virtual advice," he says.