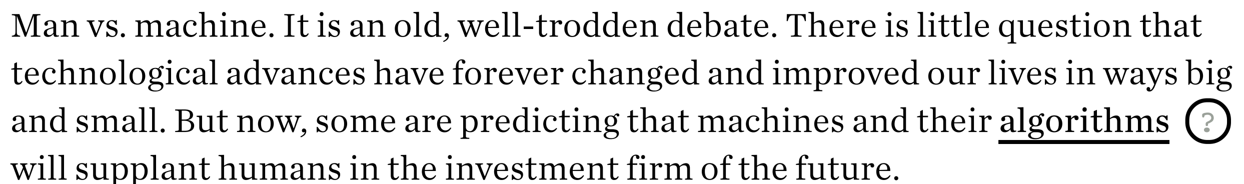
WHY BRAINS ARE MORE RELIABLE THAN MACHINES

BY JOHN W. ROGERS JR.



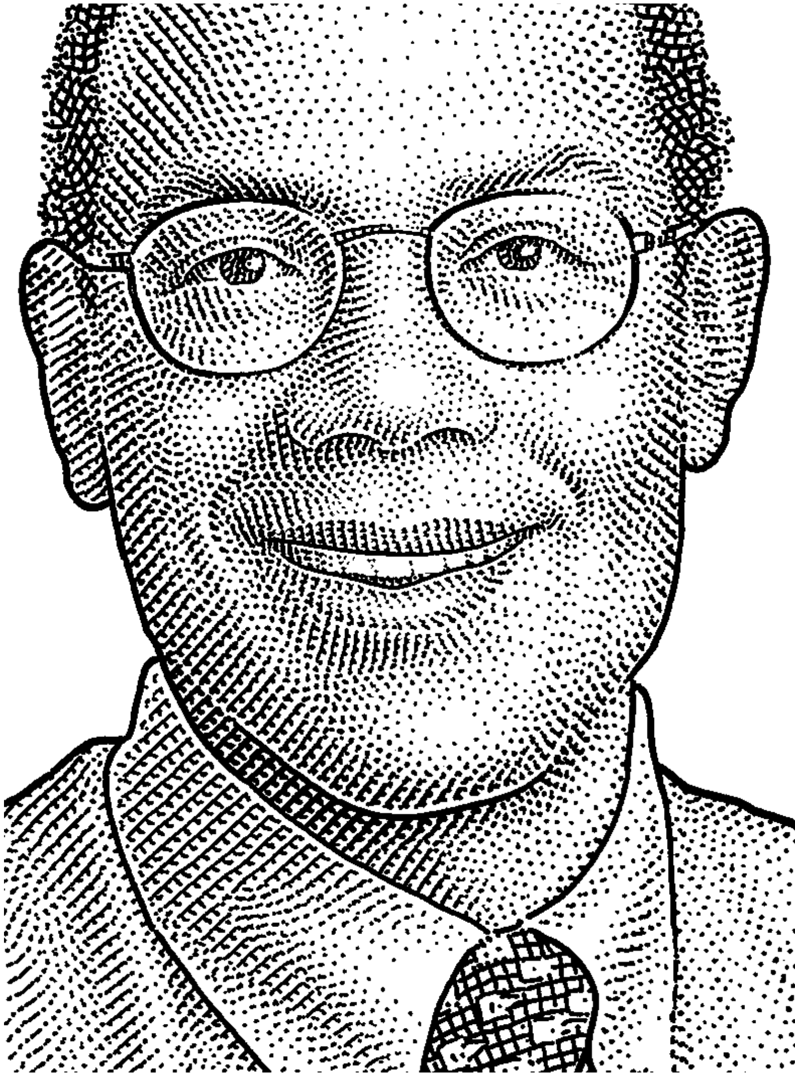
Man vs. machine. It is an old, well-trodden debate. There is little question that technological advances have forever changed and improved our lives in ways big and small. But now, some are predicting that machines and their algorithms ? will supplant humans in the investment firm of the future.

I will be the first to admit that technology helps me do my job better. I still remember my days of skimming through S&P tear sheets to find new ideas. Now a phone in my pocket can provide everything from tick-by-tick stock quotes to pages upon pages of corporate filings.

But here is the thing: data alone isn't enough. As Albert Einstein once supposedly said, "Information is not knowledge." Those promoting artificial intelligence would lead one to believe it is all about replicating human judgment in a superior manner. The data part may be easy for machines but the human part isn't. This is where computers meet their limits and our brains can triumph. Much of the investment world is captivated by using quantitative models to

solve math problems when so much of

qualitative analysis.



John W. Rogers, Jr.

In the world of entertainment, computers can reproduce a realistic image of a person but only actors can capture all of our complex paranoias, eccentricities and distinct imperfections. Computers simply cannot mimic these idiosyncrasies. The same could be said of investing. Successful long-term investors exploit inefficiencies caused by human error and frailty.

Herein lies the difference between information and insight. The "art" part of investing is the insight. Great investors don't require great quantities of information. Not to mention, purely quantitative models can also be guilty of instilling a false illusion of precision. Many have been mistakenly led to believe that a valuation based upon a 20-page spreadsheet is automatically more accurate than a short, intuitive estimate of intrinsic value calculated on the back of an envelope. Just ask Warren Buffett, who certainly doesn't need reams of financial data to produce his remarkably simple and yet astute valuations.

The bottom line is that algorithms have their limits. Facebook Inc. just announced it is hiring 3,000 "humans" to police its site for violent and

Another such algorithmic failure occurred during the crash of 1987 when computers couldn't handle the emotional irrationality exhibited by the market activity and ultimately exacerbated it. Meanwhile, some human investors saw the absurdity of the sell off and reacted intuitively and quickly without revising models and adjusting algorithms. Our strong results in 1988 were driven by the fact that we actually called our clients on Black Monday and asked for more money.

Sure, machines can be cheaper and maybe even easier to deal with than people. Computers are often right, but they also can fail spectacularly when things reach extremes or new patterns arise.

Humans don't need to be right all of the time; only when it really matters. True creative genius—of the Beethoven, John Lennon/Paul McCartney and Stevie Wonder kind—is quirky and impossible to replicate. When it comes to investing, we believe human judgment, insight and peculiarities are the necessary ingredients to long-term success.

—John W. Rogers, Jr. is chairman and chief investment officer of Ariel Investments LLC

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