



Australian Standfirst

March 2019 Edition

Automation, Artificial Intelligence & Bionic Markets



These monthly circulars are for educational purposes only and should not be taken as advice. All views shared within them are Australian Standfirst views and do not represent any other organisation or individual (unless cited accordingly).

(This publication respects all mandarin traditions and the boundaries of Sinocentric commentary)

Vu déjà – not to be confused with *déjà vu* – is the phenomenon whereby you see something for the first time and once seen, cannot forget or undo the fact that you have now seen it.

For global investors who have been counterparty to institutional driven liquidity which moves in arithmetically divisible prime quantities or cacodemonic patterns, it dawns on them that they are not interacting with another human being, or at least, not at the forefront.

Akin to Youtube becoming prime media and commercial television, now the periphery, so to is it evident that bedrock listed and quoted bellwether exchanges – such as the flagship US S&P500, Nasdaq, Nikkei225 and MOTHERS index, Eurostoxx50, Kospi and Hang Seng – are here and today levitating upon robo-bionic decision making, execution and for the aforementioned global investors, reactionary countertrading.

In other words, the computers now domain within primetime, with the implicit implication human institutional professionals are or are rapidly becoming replicable.

Whether these automated financial 'bots' advance autonomously or are still under some degree of human supervision, authorisation or dependence is missing the forest for the trees, for in which the imperative question that needs answering is how we, global investors as mortals interplay with these counterparties, how we siphon-off the excesses of our engagement – *id est* making a profit, a gain, or in the vernacular, '*Alpha*' – and ultimately how we learn their way of logic.

We have discussed this zeitgeist before, notably the "Rates Riot", which followed the infamous "Taper Tantrum" of 2014-2015, wherein The Dow Jones and S&P500 indices ratcheted up and down, in arithmetically identifiable parcels of three to five percent's, more than four times, within two trading hours in New York: that has never been seen in human history before.





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“

...These are complex questions and challenges of our era..

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Coupled with the single largest drop on the Hang Seng since 1987's "Black Monday" — remembering that Hong Kong's 1987 fall triggered the 1987 global stockmarket crash — these events led institutional participants to deeply question how involved automated algorithmic computer systems have become.

The presence of computers throughout markets is an obvious reality that will need to be accepted.

Cite: [Rates riot behind the market correction, 29 Aug 2015](#)

Idiosyncratic or isolated episodes do not surmount to evidentiary proof (..ask Special Counsel, Robert Mueller..) notwithstanding, conflated with broader experiences both taken individually and in the aggregate, they do support the thesis that the dominant determinant of the market momentum factor is today bionics; professionally known as 'Algo' and or 'DMA' (Direct Market Access) traders.

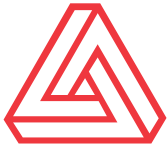
One does not need a quantum computer, simple spreadsheet or even a handheld calculator to validate this hypothesis, they need only point to the *googleable* (..sadly now a word..) public domain statistics which would affirm that the US's S&P500 did not retrace more than two percent, on any given day, throughout calendar year 2017, from start to end.

In short, that has also never happened in modern human history and is unexplainable if purporting that humans drive, support and correct financial markets in the current epoch.

From a healthy perspective, that fact alone could be well argued to be a positive, constructive and a beneficiary outcome of financial markets automation, after all, who particularly enjoys irrational and sporadic volatility, unhinged from any relation to what is referred to in economic science as, 'Price Discovery'.

But **vu déjà** is irreversible, like the innocence lost when finding out Santa Claus is not real (..sorry folks, don't shoot the messenger..) and for global investors, confronting daily investment decisions, interactions and second stratum corollaries – such as accounting, insurance, retirement planning and intergenerational wealth management – takes on a new thought process when confronting introspective decision trees; *"do we buy when others are panicking or hereonin will bots rationally undermine our attempts at heuristic arbitrage?"*, *"what does sentiment indicators mean for markets in an era whereby bionic systems synthesise – they don't "feel" – behavioural statistics?"* and even there, what does "behavioural" now mean? Human behaviour? Or quantitatively replicated historical human long-term trend patterns of behaving under comparative conditions?





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These are complex questions and challenges of our era which will not be clarified any time soon but what matters for the prosperity and benevolence of our collective global economy is who in the human realm today owns and therein controls these machines

The Sinocentric dogma and literal manifesto, "Made in China 2025", asseverates The People's Republic as Artificial Intelligence, or AI, hegemonic before or at the latest by 2025.

Doubt this (human) tenacity at your peril.

Espoused by Musk, Hawking, [Gates](#) and anyone near preeminent, it is clear: they who control the AI, control the Twenty-First century.

Pax Americana nor Pax Sinica mean their salt without the predominance over AI hegemony.

As of writing, China boasts three of the top ten market capitalised AI listed conglomerates globally, with the incumbent, the United States, retaining the regent supremacy.

This is not only a deliberation over years or decades, it has pecuniary consequences in the next few weeks and months.

Example, Brexit.

Apathetically and objectively, a "Hard Brexit" and one that saw realised strife, paradoxically, would have immediate and longer-term benefits for the global economy.

[Sidenote – nobody genuinely takes pleasure in seeing others actually suffer (*conditions apply) – but as an academic exercise of hypothesis and proof, please allow the following analysis.]

We discussed earlier this year the seismic shifts rifting the world and they are by no means isolated nor limited to financial or technological ecosystems.

Cite: [Seismic Shifts In 2019, 16 January 2019](#)

But in a Hard Brexit, where heuristic vexation, consequential real-world losses and punitive blows compound into a literal *schadenfreude* paradox (because it would literally be the Germans enjoying the pain felt by the Brexiteers), the silver lining of this misfortune is that it delivers a moral hazard, shock or if not greater, to the collective consciousness of global participants.

In other words, if a Hard Brexit leads to real suffering by those who chose this path, it means by immediate implication being a part of the European experiment (ergo, the European Union) meant something.

It has currency, it was material, solid and basically, it was real. The Union then matters.

If, of course, a Hard Brexit transpires and nothing substantial changes, then it automatically calls into question, why subscribe to the commitment of a Union at all?





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And now in this window of AI enlaced transmogrification of what it means to live, exchange and invest across global economies, a consequential real-world price to pay for mistakes matters, not only for *Realpolitik* or trans-European affairs, but for differentiating what AI, bionics and machines can sway and what still can only be assessed, appreciated and ironically, quantified, by us, living humans.

In a Pax Americana neutropia – a portmanteau balancing a utopian and dystopian reality – a punitive Hard Brexit demonstrates that the infrastructure of the post-War Global Order matters and consequentially, investing adjunct to human sentimental indicators could likely lead to financial losses.

Harmonising ethos, unified ethics (such as the Geneva Convention, recognition of habeas corpus and why it matters or the Universal Declaration of Human Rights) and finances humanises global financial markets.

Capitalism then celebrates the best of free faring human ideals.

In this path forward, AI, and a bionic future serves all constructively, including the planet itself (in the aspiration that Big Data, efficiencies and clever innovations reverse global warming, pollution, ceticide, elephanticide and human destruction).



Conversely, also cautioned by Musk, et al, is the inverse and one more closely aligned to the “Made in China 2025” dogma.

Digitalised intelligence, or AI, solely serves the phoenix, which for the Chinese literally means the rise of a formerly great people and literally that, a people.





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Vu déjà is permanent, by definition.

Once it has been demonstrated that those three out of the current top ten Sino AI listed conglomerates exist solely to serve the PRC's Social Credit System – facial recognition software across public transport systems, campuses and even lavatories, heuristic profiling by behaviour linked to a centralised prudential database, et cetera – it becomes evidence that cannot be unseen.

Cite: [Taiwanese War & Markets Fallout, 30 January 2019](#)

And if you are a user of the most downloaded iPhone app in 2018, *Tik Tok*, it may be timely to take a moment and google who actually owns this piece of software.

Cite: [Chinese Internet Megatrend Going Global, 4 December 2018](#)

Ultimately, if you find yourself having a déjà vu moment about a **vu déjà**, it may be wise to ask your friends, partner or family what just happened and not type your question into Siri or a *Googleable* device.



Yours,
[Stirling Larkin](#)
CIO, Australian Standfirst Asset Management

