

This AI-Robot Picks Stocks Based on Millions of Human Emotions

- Artificial intelligence crawls the web for sentiment
- Since launch index beats S&P 500 by about 50 percentage points

By Jan-Patrick Barnert

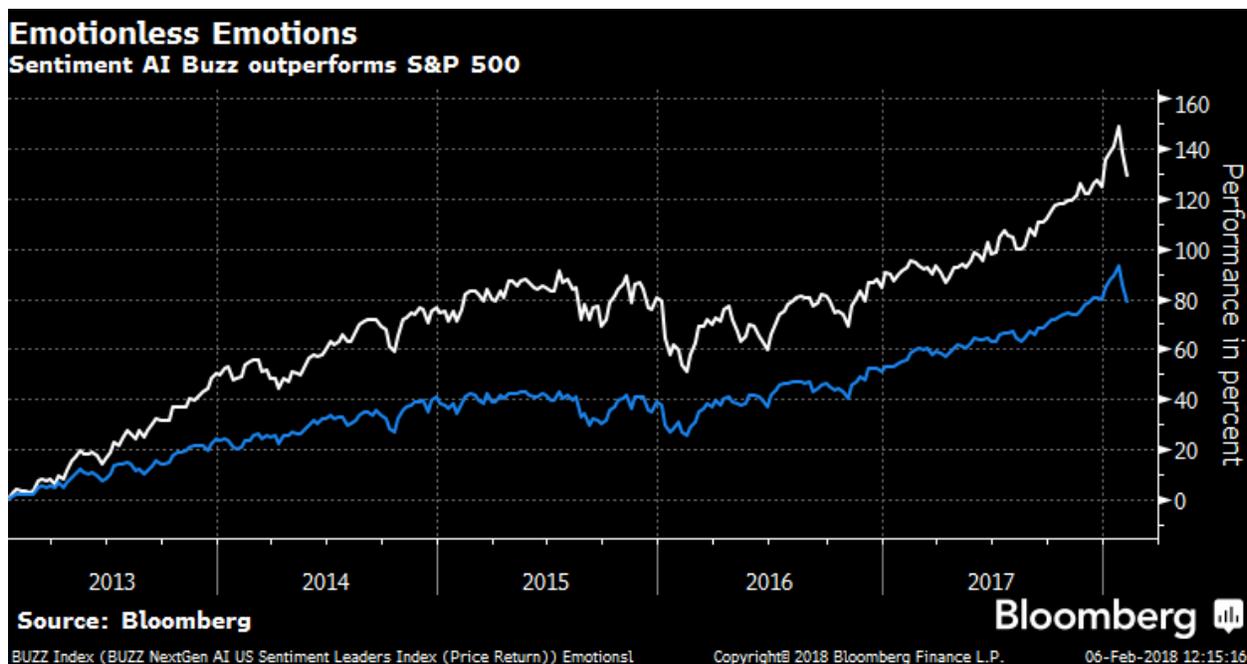
(Bloomberg) --

(Machine translation provided by Google and reviewed by Bloomberg editors.)

The artificial intelligence behind the Buzz US Sentiment Leaders ETF picks its investments based on the mood of millions of human market participants, without being influenced by its own emotions.

Developed by Canadian investment boutique Buzz Indexes Inc., the artificial intelligence collects the views of millions of internet users in real time, seeking the most-discussed stock investment. The 75 U.S. large cap companies with the highest bullish sentiment will be picked for the BUZZ NextGen AI US Sentiment Leaders Price Return Index. Since its launch in 2013, the index has outperformed the US stock market gauge S&P 500 by about 50 percentage points.

"We combine natural-language processing techniques with artificial intelligence," says Jamie Wise CEO and founder of Buzz Indexes in an interview with Bloomberg. "Our AI isolates the sentiment premium in the stock price."



In a perfect financial world, all market participants would be rational and stock prices would only reflect the fundamental data. But as long as people are active in the capital markets - and may prefer their gut feeling instead of the hard facts - markets will be constantly subject to waves of emotions, Wise says.

In the context of so-called behavioral finance, economists and investors have been trying for decades to assess the current mood of market participants. However, a direct survey and evaluation of all individuals active in the capital market is probably unattainable for a human being. Therefore, Behavioral Finance currently uses simple proxies, such as selective surveys, put/call ratios in the options market, or implied volatility to derive a sentiment indication for the market.

The AI, on the other hand, uses information directly extracted from online platforms like Twitter and Stocktwits. Every month the AI collects about 15 to 20 million different posts from blogs and forum discussions and clusters them into positive, negative and neutral sentiment. At the same time, the machine looks for the so-called "influenzer" in the online community and identifies those whose posts and tweets are most likely to move the collective opinion.

"If you believe in the theory of sentiment and its impact on the stock market, our approach is more direct and better than those of derived proxies," Wise says.

The current index composition reflects those sectors with hot debates in the relevant forums and blogs. Technology, consumer goods and the healthcare sector make up a good three quarters of the index. On the other hand, currently rather boring utilities are not represented at all.

Buzz invested five years in the development of the artificial intelligence and the basic selection of the 15 main data sources. Artificial intelligence technology differs from the more traditional quant investment approach, in that it mimics the human brain's capacity. When new data comes in, the algorithm modifies its behavior. A machine detects non-linear patterns, without the help of a human being.

While the use of artificial intelligence, unlike traditional quantitative approaches, is still in an early stage, the use of machine learning is becoming more widespread in the industry, with asset managers including Bridgewater Associates and Man Group Plc. testing different forms of the technology.

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About 21 month ago, Buzz launched an ETF that tracks the Buzz Index, making it a pioneer in offering a fully AI-driven portfolio. With \$12 million assets under management the size of the ETF is quite small. Wise describes the move as a first attempt to familiarize investors with the new technology. Last year, the AI-ETF underperformed the S&P 500 Index by just under half a percentage point on a total return basis. Since the beginning of the year, the AI is just over three percentage points ahead of the broader US benchmark.

"Artificial intelligence is not the next Warren Buffett and can not always be 100 percent correct, but it can help making better decisions," says Wise.

Related ticker:

BUZ US (Buzz US Sentiment Leaders ETF)

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