

NextGen Alpha
Press Release



Investment management powered by AI in times of coronavirus uncertainty

PRESS RELEASE (March 25, 2020) — Since 2016, NextGen Alpha has been conducting on-going research in relation to the application of AI to the investment management industry including the trends, developments and growth of the universe of AI-based fund products. This research has been leveraged across our AI event and investment activities and serves as the basis, along with contributions from AI investment management industry participants to publish this first in a series of press releases that will provide guidance and clarity in relation to how AI powered funds are behaving and what we should expect in times of coronavirus uncertainty.

The press release series will lead up to the 6th NextGen AI Event, a live stream only edition (live from Frankfurt am Main), to be held June 12, 2020. By June 12 there will be sufficient data to have a meaningful discussion in relation to how AI powered funds have behaved and what they have delivered during this period of extreme adverse market conditions.

At this time we prefer to offer a few points as a framework for managing expectations. In subsequent press releases we will provide data and commentary which will allow the reader to assess whether or not an AI powered fund is delivering what is promised.

For the sake of guidance there are AI powered funds that use AI for trading and others that use AI for investment purposes (for example 30 days or longer holding periods). Also take into account that AI systems vary in terms of how they are designed, the data used, the strategy and investment instruments, holding periods, objective functions, etc.

As mentioned below AI does have predictive capabilities to a certain extent but one must account for data availability and the design of the system. Perhaps in order to align expectations a fund manager should consider a form of honest communication in relation to how an AI fund should behave and or perform in times of disruptive novel events.

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States, **Fred Sage**, Chairman of NextGen Alpha, “what we can be certain of and what we can expect from this growing AI powered fund universe are investment decisions that are and will be made in the absence of fear and panic. That in my opinion is a positive outcome for financial markets with wide ranging benefits for investors”!

According to **Yam Peleg**, CEO, Deep Trading and member of the premier Israeli based AI community with 16,000+ members, “when it comes to novel events the ability to predict future catastrophic events is an important part of AI's capabilities but we must remember that AI is not a silver bullet. In order to predict rare chaotic events, such as the risk of a global pandemic, we would require more clean, high-quality data than we could even imagine and even if this was possible, the expense and effort to collect and clean this data would far exceed any potential return”.

Furthermore Yam states, “when it comes to higher frequency trading strategies the AI’s capability to sift through prohibitively large amounts of data, and then “learn” from it, will discover profitable patterns that were previously invisible even though it had never seen such situations beforehand”.

Bryan Loughry whose practical AI experience in investment management spans 20 years, states, “when it comes to a novel event such as the coronavirus we cannot expect AI to predict the timing of an event of this sort”. We can however predict how such an event is going to effect the global economy and machine learning and global economic simulations can be used together to predict expected outcomes as well as their distributional properties which can be leveraged in an AI-based model to react appropriately”.

According to Bryan, “irrespective of whether AI is used for daily trading or investment purposes it largely depends on how the models were constructed and the data sets used but if the AI fund had exhibited desirable behaviors in other emotionally driven markets in its training and test period then one would expect similar behavior in the current environment”.

About NextGen Alpha

NextGen Alpha is a Swiss domiciled public limited company whose AI event, investment and research activities are focused on the application of AI to the investment management industry. NextGen Alpha is the initiator and organizer of the NextGen AI event series which delivers the most comprehensive line-up of managers offering investible AI products alongside market participants who contribute to the growth of the AI fund universe. Presentations involving practical AI implementation experiences offered by these AI innovators of the investment management industry give professional investors a closer look at the exciting advancements of the universe of AI-based investment products and services.

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