



Could the Next Warren Buffett Be an AI Algorithm?

Description

What's the difference between the world's most popular investment legend, [Warren Buffett](#), and the average investor? Buffett has had many decades of experience and currently enjoys a pool of insurance premiums worth hundreds of billions that he can deploy to enhance returns on his investments. Those are obvious differences.

But besides those two factors, what drove Buffett's returns in his early years were a robust model for valuing companies and a voracious appetite for in-depth research. The Oracle of Omaha has often said that he considers knowledge a resource that compounds over time and is likely to spend most of his days reading about companies.

It seems we now have all the ingredients we need to create a digital replica of Buffett's investment genius through cutting-edge technology. A combination of all the data in the digital world with the most refined machine learning algorithms could finally help the average investor extract a meaningful return.

In other words, the next Warren Buffett is likely to be an algorithm created and maintained by an investment company or an exchange-traded fund (ETF) that picks stocks based on data analysis.

In fact, investment companies spent \$7.5 billion on algorithmic trading and performance enhancement in 2018, according to Statista. 88% of money managers now use machine learning to process data, according to **Barclays** report.

At the forefront of this revolution is investment giant **Blackstone**. Last year, the private equity firm took a 55% stake in **Thomson Reuters's** financial and risk business and re-branded it as Refinitiv. It now covers online content, big data, predictive analytics, and automated trading.

Blackstone's stock has nearly doubled since the deal was closed, but the true results of its AI-based investments will be reflected much later, in my opinion.

Meanwhile, Horizons ETFs Management (Canada) launched the first AI-powered exchange-traded fund on the Toronto Stock Exchange back in 2017. **Horizons Active A.I. Global Equity ETF** uses a proprietary AI-directed selection process to invest in major global equity indexes through a basket of other ETFs.

Performance has been, to put it politely, less than stellar. The ETF is up a mere 6% over the past two years, while the MSCI World Index is up 9.2% over the same period.

Foolish takeaway

Major institutions and money managers are already adopting AI-powered tools to drive performance, but the algorithm-driven ETFs available today have failed to live up to their promise.

However, if you believe these models will improve exponentially with modifications and more research, it might be an excellent time to add some AI-powered ETFs or investment companies to your portfolio.

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vraisinghani

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