Robots and Emotions

The old-school macro legends like PTJ and Soros were experts at taking the temperature of the market and exploiting the crazy emotions of the crowd. But as the years go on, more and more players have decided to hang up their boots and let algos do all the work. No more emotions to exploit right? A robot doesn't care if its trade is underwater or deep in the green….

Actually no, emotions will NEVER leave the marketplace.

The dirty little secret of algo traders is that they're still <u>discretionary</u>. A systems trader constantly has to decide which algos to put into production and which algos to retire. When a huge drawdown in the market causes an algo to drawdown, there's a human trader deciding whether or not to turn the machine off. All that algos do is allow the trader to trade the strategies themselves instead of price action.

The same goes for non-professional traders handing their money over to a robo-advisor. They aren't directly buying or selling in the market anymore. But they still have to buy or sell the robo-advisor's system.

So everyone is still trading price action, just not directly. The game is one degree removed from what you see on the chart.

Monitoring the performance of common algo strategies — things like risk parity, CTA trend following, value, momentum, etc. is the modern day behavioral analysis that PTJ and Soros used back in the day. We know that when an algo is in the midst of its own drawdown the manager behind it is suffering.

This all goes back to Keynes' play the player concept. The cat and mouse game will never end. It'll just exist on higher and higher levels.