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Responding to Current Events

Will AI displace traditional human managers?

From the Industrial Revolution came power technologies like steam and commercial electricity, which led to the creation of industries and higher rates of productivity. Today, the Digital Revolution is advancing industries, as software and machine learning are driving innovative ways to improve society.

Artificial intelligence (AI) refers to computers that perform tasks traditionally requiring human intelligence. In the field of finance and investing, AI is at various stages of development, although the technology has been around for decades. Existing systems use sets of rules to sift through large amounts of financial and market data, seeking out patterns with the goal of exploiting them to make a return. AI is advancing quickly, in part because of low-cost computing power and the desire to accurately analyze 'big data.'

The benefit of AI is its ability to objectively process large quantities of data at speeds humans cannot achieve. Imagine the advantage of making an investing decision faster, without succumbing to behavioral biases. However, the potential pitfalls of AI are that decisions remain based on historical information, and it is only as reliable as the programmed rules allow. As time has taught us, history more often rhymes than repeats, and investors can be irrational.

Then there are the issues of trust and accountability. Would you trust your investment portfolio to a fully automated AI manager? Consider forms of AI used in other industries. For instance, autopilot features in commercial airplanes have been employed for decades. However, in a recent survey by UBS of 8,000 air passengers, 54% would refuse to board a plane if it were fully autonomous (i.e. pilotless). Sentiment should warm over time. For now, presumably, humans will not yet be displaced by machines in circumstances where the stakes are high, such as with your life or your investments.

There are many ways to capture returns in the market. We believe QV has a consistent process shown to be successful over cycles. However, we are continually seeking ways to make better decisions. At this point, they still involve the minds of bright, capable people, and a collaboration between person and machine.

What is QV's view on the NAFTA negotiations?

Renegotiating the North American Free Trade Agreement (NAFTA) has been a contentious ordeal. A positive outcome for all parties is difficult to see at times. However, a Wall Street Journal survey of economists indicates only 1 in 4 odds that the US withdraws from the agreement. While we would like to trust economists on their calls, it is still important to ask: what does Canada, Mexico, or the US stand to gain economically by walking away from this 23-year-old trade pact? Simply put, we do not see the benefits from protectionism in what is an integrated global system. But given how emotional negotiations have been, it is uncertain at this point whether a rational decision will be made.

In the event NAFTA is discarded completely, a bilateral trade agreement between Canada and the US could come back into force. Alternatively, as Canada, Mexico, and the US are World Trade Organization (WTO) members, trade could fall back to WTO commitments. Throughout the negotiations and in any outcome, it is essential that Canada maintains its international reputation as a strong region in which to conduct business and make investments.

Inside the QV Canadian Equity Strategy, holdings that may feel the greatest impact from changes to NAFTA include Saputo Inc., a dairy processor, and Linamar Corp., an auto parts manufacturer. We are not structuring the portfolio differently due to NAFTA uncertainty. Short-term volatility in stock prices resulting from policy uncertainty may actually provide the opportunity to invest in good businesses at attractive valuations, as it has with Saputo and Linamar. Each of these businesses has a solid financial record that pre-dates NAFTA and has established global facilities where production could be redistributed accordingly with time.

Beyond the immediate market reaction to a negative NAFTA outcome, we anticipate our businesses will adapt to conditions in the long-run. Though, for the greater good of economic growth and productivity in North America, we hope economists are right this time!