



MARKET INSIGHT

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FAKE NEWS, COMPLEXITY AND INVESTING

What is the common point between President Donald Trump and largest hedge fund manager in the world, Ray Dalio from Bridgewater? At a first glance, both men have not that much in common except one thing. Recently, they both ranted about main stream Medias for disseminating fake news. President Trump has displayed an obvious disdain about traditional Medias, slamming CNN and the New York Times for dishonest coverage. Ray Dalio on his side, whacked the Wall Street Journal for publishing a “fake and distorted news” about the functioning of his firm Bridgewater. Since then, the “fake news” topic has spiked in search engines. What are exactly fake news and how this phenomenon translates when it comes to investing?

Fake news can fall into three distinct categories. The first one is the deliberate dissemination of false information. It has been mostly used in the past by politicians while journalists and media have no incentive to disseminate factually wrong information those days as fact checkers and bloggers are debunking lies very quickly and efficiently. Politicians are now much more careful when throwing figures and facts during public debates because of the reactivity of the audience. The second type of fake news is when a journalist is reporting an information without having double checked the quality of its source. Again, this type of false information is quickly reported as media are an efficient eco-system

and any reporter with sloppy due diligence loses credibility. Finally, the third type of fake news, and most likely the most complex, is the one that causes discomfort to the subject of the story. The recent open war between President Donald Trump and The New York Times is an excellent example of the ruling power accepting little critics. Most recently, Steve Bannon, the Chief Strategist of the White House, has claimed that media are the real opposition in the US. Ray Dalio, on his side picked a fight with the Wall Street Journal as he deemed that the journal has misrepresented the firm through reductive and statements.

The case of the fight between Ray Dalio and the Wall Street Journal is a complex case of fake news. Let's take first a step back to understand what Bridgewater is. Bridgewater is the largest hedge fund in the world with approximately \$150B in assets under management. The firm is highly geared toward quantitative analytics and leaves little room to discretionary decision. Most investors know Bridgewater for its Principles, a collection of 210 lessons / rules that all employees must read. Principles is a rather sophisticated document that covers the life-cycle of employees and management at the firm. More than a rulebook, it is a demonstration that Bridgewater's DNA is composed of processes, methodologies, decisions-trees and systematic rules. Employees constantly rate each other's through a proprietary system and

the data is being used to determine the strengths of each individual. According to Ray Dalio, one of the greatest tragedy of mankind is to not have a systematic process to examine the ideas and thoughts of people. Obviously, explaining such a complex organization cannot be summarized accurately in a few bullet points.

As one can easily imagine, Bridgewater is surrounded by some halo of mystery, first because of the Principles, which is a rather unique thing in the field of finance, and second most likely by its astonishing size. Ray Dalio agreed to an interview with the Wall Street Journal to go into greater detail on how the firm works and why he believes that he has created an efficient systematic process for people to interact between each other's and how to allocate resources in the most efficient manner. The Wall Street Journal decided to publish an article describing a weird and oppressive place which Ray Dalio described as a distorted description of the reality and fake news harming the firm. He has been given the opportunity to reply to the Wall Street Journal through an extensive interview published in Business Insider in January this year, debunking a number of myths and exaggerations.

Financial markets have grown to become an extremely complex animal, more and more automated and increasingly driven by machines. Not only they are reacting



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to facts but also to news and these news are now coming from a variety of sources, trusted as well as untrusted. As an example, several investment firms have developed news parsing systems that read and interpret twitter feeds to take actual buy and sell decisions. Depending on the stock, the time of the day and the liquidity of the market, those systems can have a significant impact, negative or positive, on a stock's price. Although news coming from Reuters or Bloomberg are generally considered by the investment community as high quality, twitter has the potential to generate an amount of factually wrong news due to unreliable sources, no fact-checking and no barrier to entry for publishing. Usually, the impact of those news from a time perspective is rather limited, but given that financial markets are more automated, it is not unlikely to expect one day a large market event based on a fake news.

There is a strong parallel to draw between the case of Bridgewater and what investors are facing in today's markets as described earlier. Complex financial markets require complex and complete analysis before making an investment decision. However, similar to journalists summarizing complex situations with hook-up statements and a few bullet points, investors could sometime be tempted to jump

in a trade or an investment based on a short analysis covering only a rather limited subset of the full investment case. For a sophisticated investment, it is hardly possible to shorten the analysis and to focus only on headlines. Instead, one has to crunch the numbers, focus on fundamental analysis and build a comprehensive view of the investment contemplated.

Ultimately, it all boils down to thorough analysis and due diligence, being investments or being news. Shortcuts are sometimes available but investors should acknowledge that if a shortcut appears obvious, then it is probably unwise to take it and avoid doing the ground work. In a world of high speed communication and 140 characters messages, the importance of fact-checking and independent research remains of utmost importance.

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