



## MODULE 6 UNIT 1

### Video 1 Transcript

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NIR VULKAN: Hello, everyone, and welcome to Module 6. Well done on making it so far. It's the last module, so you're gonna get your life back soon.

In this module, we're going to do a few things. We're going to try and look a little bit beyond just hedge funds. We're going to look at the impact of algorithms and, more generally, AI in finance.

We're gonna look in a number of ways where algorithms and AI are now beyond hedge funds and are in finance in general.

One area we're going to look at is robo-advisory. So robo-advisory is huge in America. Trillions of dollars are managed by robo-adviser, and it's getting very big in Europe as well. And we have the founder of Moneyfarm, who's the largest robo-advisory firm in Europe, who's speaking to us about that.

Now it's a little bit different than hedge funds. It's more about low cost and tracking. But still, it has in common the idea of some kind of algorithms managing money. Now it's different because it's managing people like you and me money, which means it's highly more regulated, so there's they can't use futures, go short, and do all the things that we can do in general algorithms that we've been seeing over the last few weeks. There's a lot of interesting things going on there, and I'm quite happy that you get to see it, because I really think the lines are blurred now between algorithms in hedge funds and in other parts of finance.

### AI in algorithmic trading

VULKAN: But mostly in this module, we're going to talk about AI and AI in algorithmic trading and more generally in finance. Well, it's hard not to hear about AI now. It's everywhere in the news. And this isn't a course about AI. But, nevertheless, we're we're gonna try and understand what's different about what people now call AI from what we do in algorithmic trading.

And let me tell you, when I started at the end of 2001, and I remember I went to the head of the hedge fund that I was working with, and I said, "Look, you know, my algorithm is a little bit AI." What I meant by this is it had an element of self-adjusting. And I remember he said, "Oh, don't say AI. That's a bad word. You know, nobody wants anything to do with AI." So, you know, times have changed. Now everybody wants AI, but I think that little conversation does, there's a point there that in some way, AI is everywhere. Anything algorithms where a computer make a decision is now falls under the category, but also it's very, very different. And what I want to do in this module is get a little bit deeper around things like machine learning, the idea of kind of starting from data and trying to identify patterns, which is different than the kind of stuff you have seen with me in Module 4 where we started with sort of an idea of a model coming from behavioural finance and trying to fit it or to try and test it on the data.

And we're gonna talk a little bit about generative AI, large language models, and particularly about something called transformers. So if you know ChatGPT, the T in ChatGPT stands for "transformers", and I think there's a lot of promise there.

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There are also some things to be careful with. And by this stage, you're probably sick of hearing me talking about overfitting and the idea of, you know, having very complicated models, you know, doesn't necessarily produce good results because complicated models are good at explaining the past, but not necessarily of predicting the future.

### Ethical implications of AI

VULKAN: And this, I think, still remains the biggest problem with this new type of very, very large model.

Finally, in this module, you will hear from me a little bit about ethical implication of AI. And I think it is important. If you're gonna work in this industry, you need to understand what the government and regulators are thinking, how they're thinking about this, what they're worried about so that when we are building our algorithms and we're building our systems, that we know that they will sort of comply and that they wouldn't violate any of these issues.

Hopefully, it's an interesting module, and I hope you will enjoy it.

Did you understand all of the concepts in this video? If you would like to review any of the questions, click on the corresponding button.