Investing 102: Watch Out for Robots

I was reading an outdated New Yorker at a doctor's office recently and came across this column about electronic trading and the rise of the new robot overlords who control our every financial move.

OK, maybe it's not quite that dramatic, but it provided a good, nugget-sized summary of why an individual trying to time the market or trade individual stocks is almost never going to succeed based on anything other than dumb luck:

In the popular imagination, investing is about economic fundamentals. Investors scrutinize companies, weighing factors like cash flow, product lineup, and merger plans. They keep in mind general stuff like interest-rate hikes and what's happening to the dollar. But most trading these days has nothing to do with any of these things. Instead, it's all about what the market is going to do in the very short term—often a matter of milliseconds. Most of this trading takes place too fast for humans to be involved, so the decisions are left to computers.

Market swings are generally driven by algorithms, computers, and large-scale institutional traders (think CalPERS, the retirement system for the state of California and largest pension fund in the U.S., which manages over $300 BILLION in assets; that's more than even Donald Trump!). As an individual, I know there's no way I can keep up -- while I might do well occasionally, on average I am never going to beat the market, which is why I focus on trying to match it instead.