

DECISION ALPHA

Investment Intelligence cannot be just artificial;
it has to be real to engineer the decision layer and deliver sustainable alpha.

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1. Introduction

For a client attending Maturano's Mentorship Program, I performed an in-depth analysis of the organizational structures and decision-making processes within institutional investment management firms. The following is an excerpt from the reflections we shared.

In the past forty years, we industrialized information. For the last ten, we industrialized prediction. The result is that forecasting has become a commodity, and the most expensive mistake in institutional investing is no longer being wrong; it is being right and still losing. This reminds us of Keynes's famous observation that "the market can remain irrational longer than you can remain solvent". Successful investing is not about being right all the time; you can be wrong often and still do well if your losses are limited and your wins are meaningful.

As George Soros once put it “it’s not whether you're right or wrong, but how much money you make when you're right and how much you lose when you're wrong”.

2. The prediction industry has reached diminishing returns

Lets consider four facts that define the new investment landscape. First, as explained, prediction is a commodity; every desk holds the same data, runs the same models, and reads the same research. The marginal forecast, this is, the extra piece of analysis, the next model update, no longer delivers sustainable returns.

Second, the science of judgment is sobering. Studies consistently show that expert forecasts perform barely better than chance, and those most confident are often the least accurate. Tetlock’s 20-year study of over 80,000 predictions made by experts, showed that results would have been better if they had picked answers out of a hat.

Third, the unexploited margin is not better foresight but something we might call “Decision Alpha”, the measurable gap between what a firm knows and what it actually does; unlike prediction, Decision Alpha can be engineered, audited, and compounded.

Fourth, and most critically, AI's real role in advisory is not a better oracle, but decision infrastructure; honest uncertainty, institutionalized dissent, pre-commitment, and systematic learning from outcomes.

Together, these four facts point to an uncomfortable conclusion; the information and forecasting arms race is over, and most firms have not yet noticed that the battlefield has changed. In 2025, almost 80% of active large-cap U.S. equity funds underperformed the S&P 500; this is the fourth-worst year for active managers in 25-years. Since 2010, according to SPIVA, underperformance among large-cap U.S. funds has exceeded 90%, and no equity or fixed-income category has had a majority of active funds beat their benchmark. This is not a skill problem. It is structural.

When every desk buys the same data, runs the same models, and reads the same research, the consensus becomes the price. Consider two simultaneous market signals: 60% of investors say they would be more likely to work with a fund focused on “artificial” intelligence (AIMA, 2025), at the same time the industry response has been to spend billions to predict better and faster. As a result, information and prediction are no longer a competitive edge; decision tools are the new battlefield.

3. The uncomfortable science of expert judgment

But the forecasters themselves bring bad news. In Tetlock' study, the most famous and confident forecasters were frequently the least accurate, while simple statistical extrapolation beat most of them. And it gets worse. In the book "Noise" (2021), Kahneman, Sibony and Sunstein showed that professional judgment is disturbingly inconsistent. Executives at a large insurer were asked how much variation to expect among underwriters judging identical cases. They guessed under 10%, but the actual median gap was 55%. Same facts, same training, random noise. The uncomfortable conclusion is that much of what we call "expertise" in markets is calibrated confidence attached to uncalibrated judgment. In a committee, where the loudest and most senior opinion carries disproportionate weight, noise compounds into consensus, and consensus into herding.

4. The AI paradox: more intelligence, more herding

Decision Alpha is the measurable, sustainable edge that comes from engineering the decision layer, not from better forecasts, but from a systematic process for turning what you know into what you actually do. And here is the trap the industry is walking into. If every institution deploys the same large models, fine-tuned on the same data optimized for the same benchmarks, we do not get ten thousand independent thinkers. We get ten thousand correlated copies of the same thinker! The IMF has already flagged this mechanic where AI-driven funds rebalance faster than traditional strategies; when many models respond to similar signals, they amplify swings. Although herding is not new, AI can change its dynamics (IMF staff analysis, 2026; Global Financial Stability Report, 2024).

This is the paradox of the "artificial" intelligence. More prediction capacity, uniformly distributed, produces less dispersion of views, but dispersion of views is what keeps markets liquid, prices informative, and the edge ownable. The more we all predict well, the less prediction matters. In the end, markets pay you for the only thing left. That leads to another uncomfortable question: what is the real foundation of market profit? pure force? majority weakness? intelligence? or institutional power?

The same logic applies one level up. As every serious desk can buy and process the same prices, flows, filings, and headlines within milliseconds, data has become a commodity.

The new scarce resource is context: knowing which facts matter at this moment, how much they weigh in a decision you are about to make, and when yesterday's relevance has eroded.

What we have here is a different kind of intelligence. It is not prediction, it is selection, weighting, and real-time adjustment; the "real" intelligence is deciding what to think about, not what will happen. This is by far the hardest layer to automate and industrialize, and the one most AI investment tools lack. Whoever industrializes it first owns the only scarce resource left (Spoiler: the new Reinforcement Learning from Human Intelligence will become more scarce, strategic, and expensive).

5. The reframe: Decision Alpha

The margin has been sitting in plain sight in the gap between what institutions know and what they do. Lets consider the cleanest measure of that gap. Morningstar's "Mind the Gap" research (2025) shows that the average dollar invested in U.S. funds earns roughly 1.2% less per year than the funds themselves return; around 15% of total returns surrendered, year after year, by decisions made at the wrong moments. That is not an information gap, because it was public information. It is a "decision" gap; buying after conviction peaks, selling after pain peaks, holding too long, or cutting too early.

The same gap runs through every desk and committee; ideas rejected for status reasons; positions sized by the strongest voice instead of by best evidence; conviction stated but never calibrated; exit rules written but renegotiated at the moment of maximum pain. The truth is most firms measure the quality of their outcomes, but almost none measure the quality of their decisions. Great decisions can produce bad outcomes with disturbing regularity, and lucky outcomes have masked bad decisions for years. If you never separate the two, you will never learn, and you will never improve.

Decision Alpha is the measurable, sustainable edge that comes from engineering the decision layer. First, be honest with uncertainty by saying "we don't know" with a number, not an euphemism, so that confidence can be quantified, calculated and audited.

Then, institutionalize dissent, this means a devil's advocate with real authority, not a token skeptic, or a rule that unanimous votes count as process failure. Another step is pre-commitment, this is, entry, exit and kill criteria written before conviction exists, and honored after it arrives.

Finally, create decision journals with systematic review, judging every call by the process that produced it, not by the luck that followed. None of these requires clairvoyance (perspicacity); all is learnable, auditable, and critically uncorrelated with what everyone else is doing. Operationally, this decision infrastructure has three layers:

a) Calibration, which models and reevaluates correlations, risk, and macro scenarios in real time, not once a quarter, because the assumptions that were true at the last committee meeting are often false by the next one;

b) Cognition, which protects the decision from the decision-maker, since overload, anchoring, and herd behavior corrupt even the most brilliant analysts. In the real world, this decision layer detects when a committee is converging for the wrong reasons;

c) Context, which knows what matters now, how much it weighs, and when it stops mattering, meaning the data that decided last quarter's call is often noise the next quarter.

None of these layers predicts the market, but each makes the institution decide better than the average market player, which is a low bar and a very large edge, as the previous evidence shows. This is what AI investment advisory should be. Not a better oracle, but a decision infrastructure that sits between the model and the mandate, surfacing what the machine does not know, amplifying the minority view, enforcing pre-commitments, and closing the loop between decision and outcome. The firms that treat AI as prediction will get the same answer as everyone else, just faster; the firms that treat it as decision infrastructure will own the only margin left. In this sense "artificial" intelligence is rapidly becoming another commodity; though the acronym might sound the same, AIA now stands for Advanced-real Intelligence Agents, a statistically solid technology, which is the new gold.

6. This conversation can't happen on a screen

The ideas examined here form the intellectual scaffolding that will be developed during the upcoming invitation-only event called “The New Investment Intelligence: Behind Closed Doors” (April 2027, www.investments.in21.com). Within three days on an exotic Brazilian island, top-tier CFOs and Investment Leaders will discuss the emerging new generation of advanced intelligence (not simply artificial). The forum is deliberately kept small (about seventy seats), in-person exclusive, and off-the-record. No recording. No streaming. No press. Because some of the most important conversations in this industry, about what your firm actually believes, how it actually decides and why, cannot be discussed in front of a camera. If this article resonated, that event is where the conversation continues.

The ultimate forecast is the one you make about your own decision process, because the ability to convert a correct prediction into a profitable outcome through timing, risk management and execution has become the primary source of alpha.

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