# Language of speech and the language of Markets

Speech for most individuals is an effortless task of everyday life. One does not consider the complexity of speech, only the fact it is needed for communication with others. People will speak slightly different from the next individual in terms of pitch and pronunciation. Even with different backgrounds and variations in language, it remains an easy task to understand and communicate language. When one attempts to breakdown language in how our vocal cords act, the study of phonemes and the problem of invariance there comes an appreciation for the complexity of language. The issue of co-articulation is akin to similarities one will experience in the trading markets.

Co-articulation is the ability of the body parts that produce sound (jaw, tongue, lips) to move rapidly and in perfect co-ordination to produce vowels and consonants in a very smooth process. The listener is able to de-code the information in an effortless manner and thus language is able to bring together individuals in a complicated form of exchange. The amount of influence of one phoneme on another will vary depending on its relation to another phoneme. Other factors that has considerable influence include rate of speech, ability to identify one phoneme from another, and loudness (attention grabbing). Investors will recognize these behaviours in their and others trading patterns as attention to a particular security detail initially got them interested in a particular security. In particular, the loudness of a stock (just like who speaks the loudest) most often grabs our immediate attention. The similarities between speech and trading activity are remarkable similar, in fact a hedge fund in Stony Brook NY hired most of the IBM speech recognition team onto his hedge fund and has posted an impressive performance for over a decade. Off-course, a hedge fund has other angles that is uses to explore the market for anomalies but language seems to certainly be a part of it.

The actions of a security are related to others in the sector, which in turn is compared to the market as a whole. If stock A is performing well, it will be judged according to its sector. In typical feedback stocks in a sector often move as a group due to common traits they share with the competition. Further, as one sector begins to perform other sectors will enjoy spin off effects and in rapid correlation with the general markets (economy) will all start to propel ahead. From a macro economic perspective if the yield curve is accommodating enough to induce investors to invest in capital goods (plants and equipment) instead of savings, then markets will move higher due to increased demand for services such as plant, construction, raw materials, etc…. In short term trading the macro effects are small and company profitability has the most impact when there are surprise earnings (for better or worse).

Inside all of the activity the" market is a weighting machine in the short term" (according to Benjamin Graham), placing stock prices in relation to others and competing for investor attention. The outcome will not always be rational and relationships will change with the reference and context the stock comes to the attention of investors. A simple mention of a company within an industry that is performing well will have a positive effect on the stock price, as will a rising market to quote the famous Wall Street saying "a rising tide lifts all boats".

The measure of loudness is best measured in the amount of media attention a stock is able to garner. To get noticed stock end up on the most active list, biggest winner, biggest loser (no stock wants to be here) and stocks making yearly highs and lows (no stock wants to be on that list). Other ways to get attention is to have a stock price that has been on a gradual rise over the last few months, this will show as a up or down trend on a chart - the equivalent of pattern recognition signs. Pattern recognition may have actual meaning behind it but looking at charts is a one-dimensional world that is devoid of the words to accompany the movements. There is no standard method to qualify market moves, thus opposing logic means that for every buyer there must be a seller - they are both talking different languages and neither has an interest in understanding the other. To the observer the differences at a glance appear to be random and often mean reverting. ***The language is in the delivery of the words, and in the markets the delivery is often noise***.