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But we have an algorithm! What could possibly go wrong?

When we need a dose of humor, the worlds of business, economics and investments aren't the places to look. Money is involved, which is rarely a laughing matter—especially when it's our own. But when it's someone else's, it's a little easier to chuckle once in a while. We did, here at Outlook, when we saw this headline recently:

"Zillow Loses $380 Million, Gives Up House-Flipping Business"

It got funnier.

> "At the heart of Zillow's decision to leave house-flipping behind is an algorithm that caused the company to overpay for properties at a time when the housing market was starting to slow slightly. It's now selling significant portions of homes in cities like Dallas, Houston and Phoenix at a loss. "Fundamentally, we have been unable to predict future pricing of homes to a level of accuracy that makes this a safe business to be in," Zillow CEO Rich Barton said on the company's recent earnings call."

Now, it's possible that "My algorithm made me do it!" won't join "My dog ate my homework!" in the Lame Excuse Hall of Fame. But there might be quite a few Zillow investors ready to nominate it for that club. Here's the chart:

Zillow: Off 70% Since February

In purple is Zillow and its plunge. In orange is Zillow's earnings history. The red line is "Zero Profits." Hmm . . . earnings have spent most of the last 10 years below that line, haven't they? Now they're at negative $1.29 per share, an all-time low. Zillow's all-time high was $200 per share, this past February. It was a Celebrity Tech stock so its valuation, back then, of "infinity price/earnings ratio" was just normal, nothing to worry about. What could possibly go wrong?

Remarkably enough, apparently an algorithm went wrong. What is an algorithm, anyway? From Outlook, not a dictionary, comes: "An algorithm is a formula thunk up by an advanced computer scientist, using powerful computers sifting through mountains of data with sophisticated programs—ie, "artificial intelligence." That is, "AI." It's not permitted to hold a quarterly earnings talk these days without mentioning your company's spending on "AI" and the big benefits it will deliver.

It probably will deliver them . . . but not without falling on its face often enough to remind CEO's around the world that they, their brains and their experience are in charge—not the consultant from MIT or Stanford with a Ph.D in Artificial Intelligence. Zillow's boss and his board are heavy on Stanford grads and on venture capital/private equity types. They are a bright group. But as we sit back and chuckle, we have to wonder how many board meetings they sat through, listening to presentations about Zillow's big plan to branch out into the house-flipping business (away from its tamer "information providing business) because it had an algorithm which would tell it when to buy low and sell high. Zillow seems to have plunged head first into the new business this spring and summer—when America's real-estate market was finishing up 9 to 12 months of rocket price rises, complete with cash bidding wars at 20-30 percent

over asking price, lines of buyers standing in line to be first through the door at new-listing open houses, and so on.

All bull markets ebb and flow; running warm, then hot . . . then cooler for a while. Summer 2021's housing market wasn't hot: it was incandescent. That didn't mean it would pop like the bubble of 2008—but it didn't take a Ph.D. in "AI" for most ordinary people to say to themselves, "Surely this will slow down soon." At Outlook we suspect most of Zillow's nine board members had that passing thought, as they heard about the miracle algorithm; but they obviously buried it. "We have an algorithm! What could possibly go wrong?" That's how it usually works with the "Celebrity" stocks which happen to lead any bull market. Common sense takes a back seat, until something happens which reminds us why we all keep speaking highly of "common sense," these last few thousand years.

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