

# BrandLoyalties.com Special Commentary

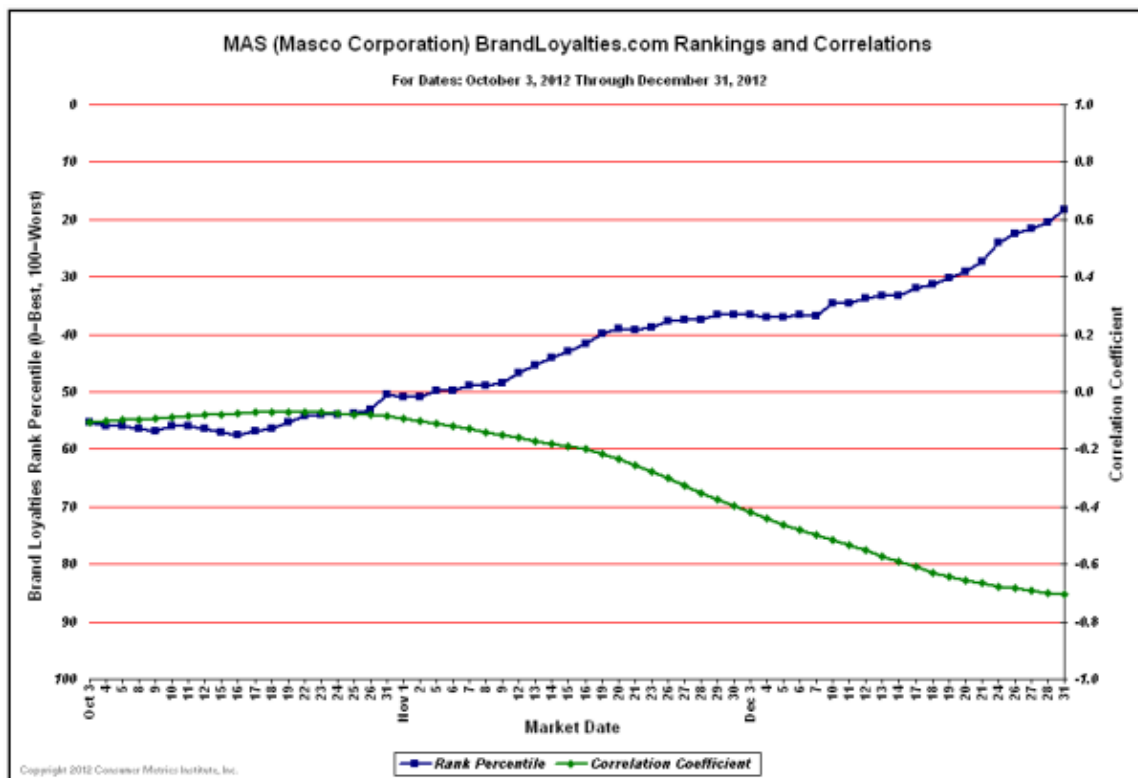
04/15/2013: Online Consumer Sentiment Data Used to Generate Alpha

(Web page version is [here](#))

Can the actions and sentiment of online consumers be captured and synthesized into a meaningful signal for individual equity prices? One unique social media data and analytics provider, [BrandLoyalties.com](#), has demonstrated that it can do just that for the institutional investor community. By one measure the research provided to their institutional clients has outperformed the S&P 500 by an average of over 20% per year since January 2006.

## Examples of [BrandLoyalties.com](#) Research In Action

On January 1st, BrandLoyalties.com's daily revision of their equity rankings marked a significant upgrade for MAS (Masco Corporation), alerting BrandLoyalties.com's clients that customers had been flocking to the brand names of MAS during the fourth quarter. The improvement was clearly visible in the year-end chart of Masco Corporation's brand loyalty rankings:

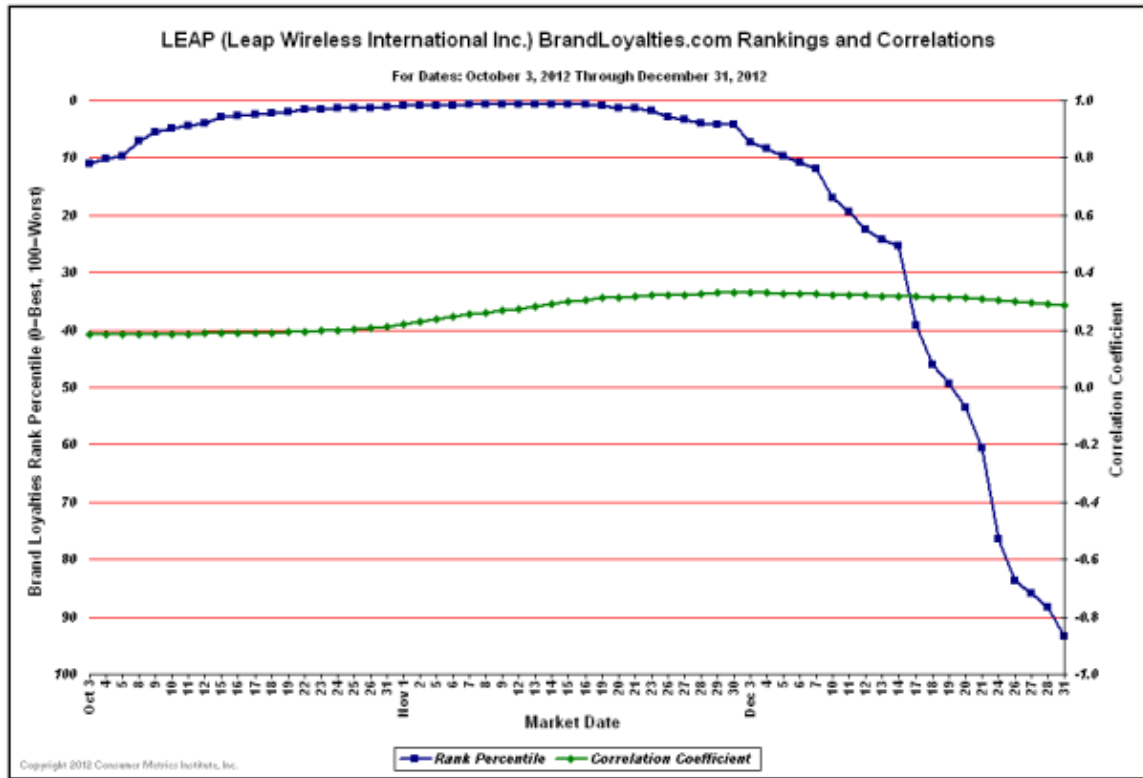


(Click [here](#) for best resolution)

Subsequently, on February 12th Masco management surprised most analysts by reporting earnings that confirmed the alert from over a month earlier and at the end of that day MAS shares were selling at more than a 17% premium relative to when the BrandLoyalties.com upgrade

occurred.

And on December 27th clients noticed a significant downgrade in the daily ranking for LEAP (Leap Wireless International, Inc.), warning that consumers had softened their interest in the brand names of LEAP during the fourth quarter:



(Click [here](#) for best resolution)

Fast forward to February 20th, and Leap management confirmed that fourth quarter revenue had been disappointing, and at the end of the day LEAP shares were selling some 15% lower than at the time of the BrandLoyalties.com downgrade.

How does [BrandLoyalties.com](#) do this? Insider information? Not exactly. In fact, they like to point out that in many cases they know how consumers are treating the brands of the large cap consumer equities even before the "insiders" at those corporations can fully realize themselves what is happening at the far end of their distribution channels.

[BrandLoyalties.com](#) tracks over 100 million online consumer choices daily and identifies which equities are likely to be impacted (positively or negatively) by changing consumer sentiment in those brands. The key criteria for coverage includes a significant online presence for the brand names of those equities (called the brand name's web "luminosity") and a reasonably strong link between on-line brand name citations and consequential revenue for the corporation (referred to as the "signal relevance" for that corporation's brand names).

[BrandLoyalties.com](#) uses a proprietary algorithm to determine the velocity of change in consumer brand loyalty ranking the 500+ stocks on this measure from top to bottom each day. Signals

derived from this analysis are generated well before earnings announcements and generally before guidance are provided. Each equity exhibits a unique lag time between when a signal is generated from the online data and subsequent price movement in the stock. The 'best fit' lag times are also provided to clients for each security in order to help optimize their buy or sell decisions.

The firm provides institutional subscribers with their unique proprietary metrics. This data helps investors easily identify those stocks exhibiting the characteristics of winners or losers. Clients may also choose to opt-in for daily email alerts which highlight the equities exhibiting the most significant trends. While investors are naturally interested in identifying equities with growing brand loyalty, users may also mitigate risk in existing portfolios by monitoring or avoiding stocks which display fading customer loyalty.

### **How Have BrandLoyalties.com Signals Performed?**

A simple long-only proof-of-concept portfolio consisting solely of the top 10% of these 500+ ranked stocks would have produced an average annual ROI over the past 7 years in excess of 25% as compared to the S&P 500's 3.33%. (Results from over 1,500 one-year Monte Carlo portfolio simulations covering January 2006 through December 2012, each portfolio equally-weighted and reallocated when composition of the top 10% changes.)

It is highly likely that BrandLoyalties.com clients have experienced even greater alpha if they overlaid their own internal fundamental or quantitative research to the simple brand loyalty metrics used in the proof-of-concept portfolios.

For more information on BrandLoyalties research and services, visit [www.Brandloyalties.com](http://www.Brandloyalties.com) or contact Tony Seker, [Tony@brandloyalties.com](mailto:Tony@brandloyalties.com) for a demo or trial.

---

*Copyright ©2013 The Consumer Metrics Institute*