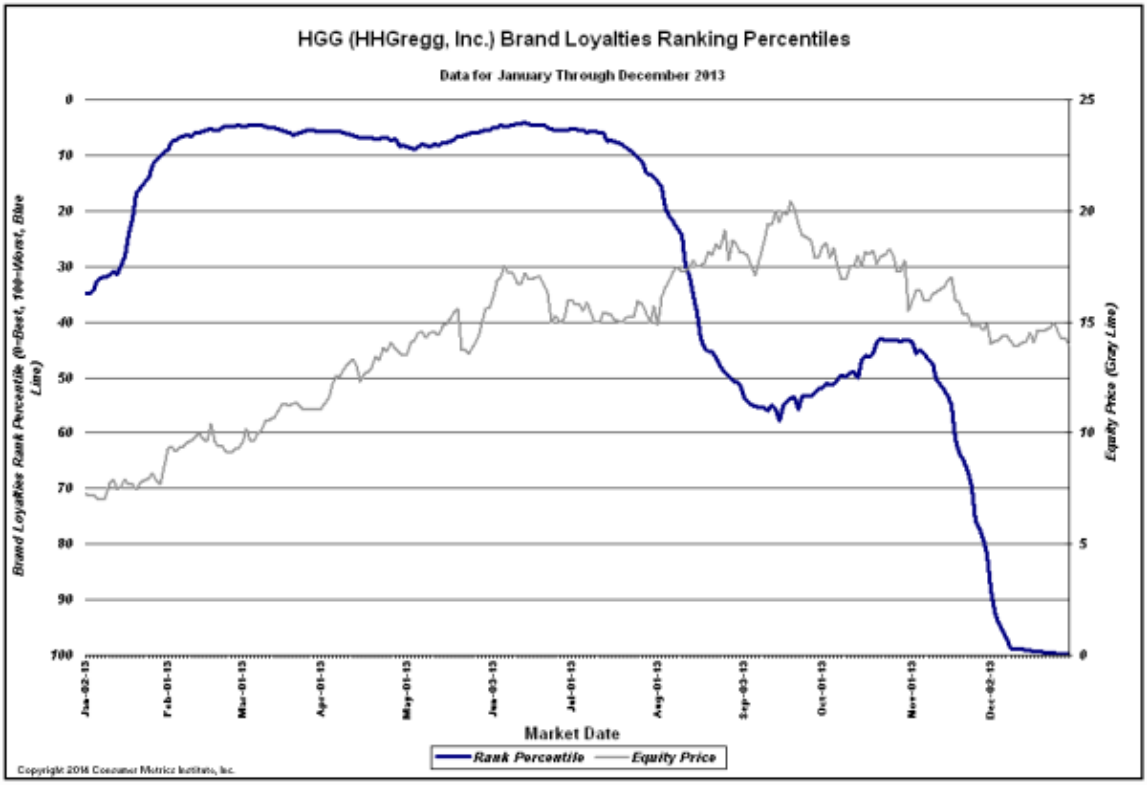
BrandLoyalties.com Special Commentary

01/13/2014: The Rise and Fall of Retailers in 2013 -- a Retrospective on Brand Loyalty Metrics

(Web page version is here)

When looking back on 2013, a number of fascinating stories jump out of the daily BrandLoyalties.com charts -- including some retailers that offered both long and short opportunities within a relatively short time. One of the more intriguing was HGG (HHGregg, Inc.), whose full year 2013 chart is below:

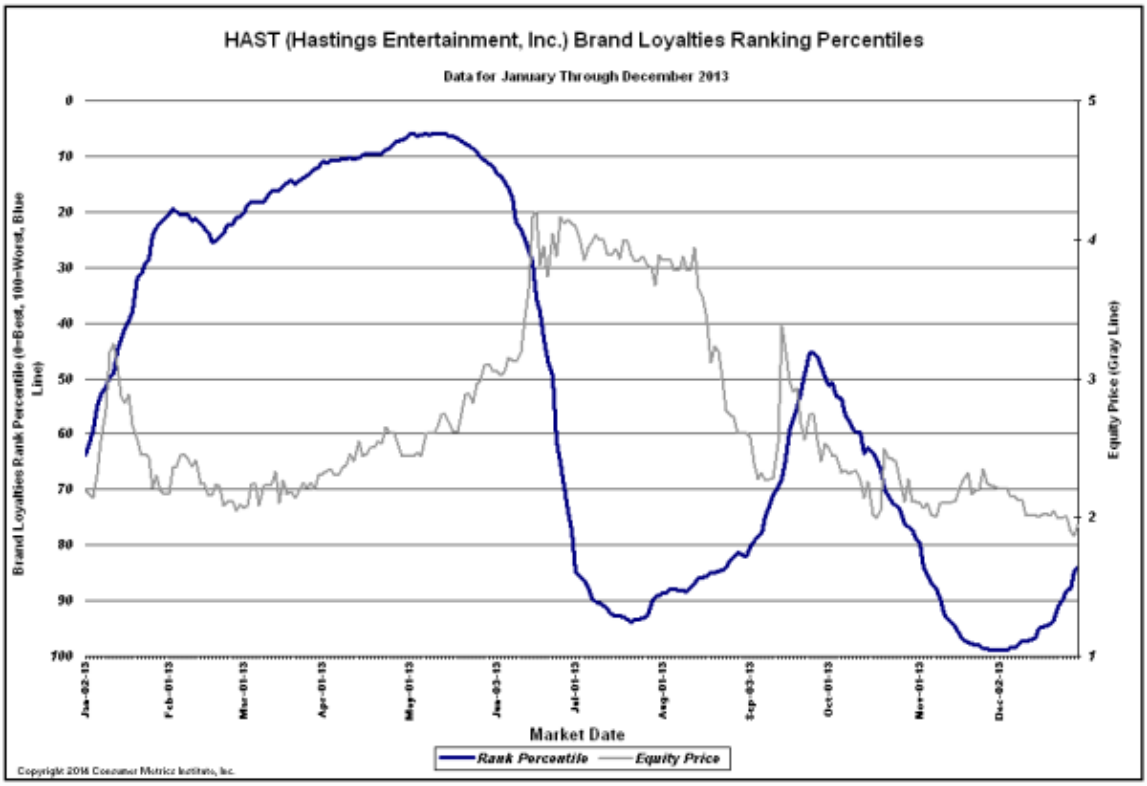


(Click here for best resolution)

The blue line in the chart represents the day-to-day BrandLoyalties.com ranking of consumer loyalty to HGG's brand names (as measured by changing brand name citation rates in both on-line shopping and in social media). The gray line shows the corresponding daily share prices for the equity. According to BrandLoyalties's Tony Seker: "The key take-away from the HGG chart is the ability of consumer brand loyalty metrics to broadly anticipate significant swings in guidance and revenue reporting." Tony noted that in this particular case the changes in consumer citation rates gave his clients a roughly 10-week "heads up" warning on substantial equity pricing movements in both directions.

A more complex chart involves HAST (Hastings Entertainment, Inc.), which shows choppier (but

no less dramatic) swings in both consumer citation rates and equity pricing during 2013:



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BrandLoyalties.com considers any equity in the top 20% of its rankings to be a "buy" opportunity, while any in the top 10% are regarded as having a "strong buy" recommendation. Those kinds of rankings for the brand names of an equity often occur just weeks before those corporations issue favorable guidance and/or good earnings reports. For example, clients following BrandLoyalties.com "buy" signals realized a 125% long return in HGG between 1/22/2013 and 8/6/2013. Similarly, HAST gave clients a 50% long return between 3/4/2013 and 6/10/2013. In fact, historically, holding a long-only portfolio of only the top 10% ranked equities in the BrandLoyalties.com universe (since 2006) would have provided more than a 30% cumulative annualized alpha.

*Would you like to know how the **marketing strategies of your favorite equity** are playing out in "real time"? Just **reply to this e-mail** to request a quick demo presentation or trial subscription.*

How Does BrandLoyalties.com Track and Rank Brand Loyalties?

BrandLoyalties.com is a unique quantitative research provider to institutional investors that uses online consumer-tracking data to generate forward looking signals based on shifting consumer brand loyalty. They track over 100 million daily online consumer choices and identify which equities are likely to be impacted (positively or negatively) by changing consumer sentiment in

those brands. The key criteria for coverage include 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 since January 2006 of nearly 37.4% as compared to the S&P 500's 5.3%. (Results from roughly 1,740 one-year Monte Carlo portfolio simulations covering January 3, 2006 through January 10, 2013, each portfolio blindly chosen on only brand loyalty rankings, then equally-weighted and reallocated when composition of the top 10% changes.)

BrandLoyalties.com also notes that "unfolding PR nightmares, M&A activities, investor scrutiny or other extenuating circumstances can lead to false positives if they generate a sufficient 'buzz' on-line." For that reason no real-world portfolio should be blindly chosen in the manner used for the proof-of-concept portfolios -- making it highly likely that actual BrandLoyalties.com clients have experienced even greater alpha when they overlaid their own internal fundamental or quantitative research on top of the simple brand loyalty metrics used in the proof-of-concept portfolios.
