BrandLoyalties.com Special Commentary

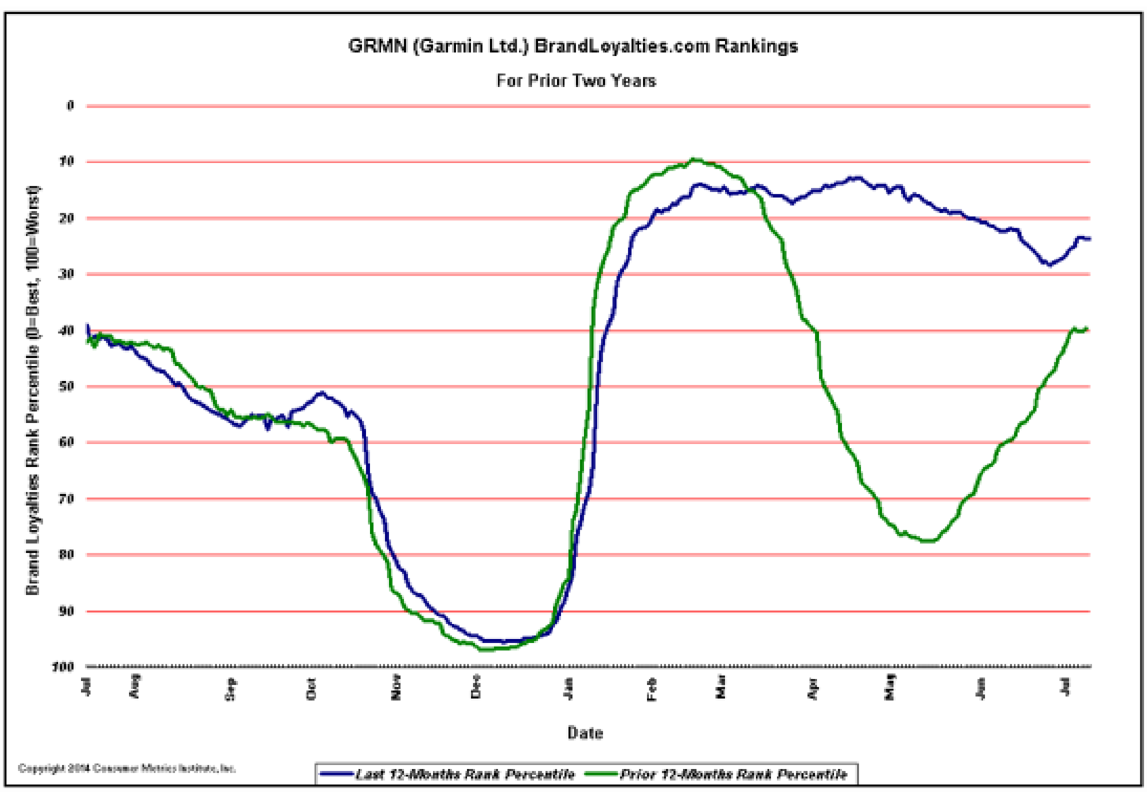
07/13/2014: Gaining an Edge During Earnings Season: Real-Time Brand Loyalty Measurements

(Web page version is here)

Earnings season always sends research teams scrambling for new data sources that can identify imminent market opportunities by anticipating revenue surprises. One such data source may be the daily charts at BrandLoyalties.com , which provides real-time rankings of consumer loyalty to the brand names of over 500 major equities (as measured by changing brand name citation rates in both on-line shopping and in social media).

The BrandLoyalties.com research can provide portfolio managers with pre-guidance and pre-earnings report insights into the constantly shifting loyalties of consumers. And their "peer relative" ranking methodology creates clear signals from short term citation share gains and losses by significantly amplifying the visibility of such shifts in their charts. A classic example of an upside opportunity from the spring 2014 "earnings season" was provided by Garmin Ltd **:**

GRMN (Garmin Ltd.)



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One thing a savvy portfolio manager should know is how this year's revenue is likely to compare with the same period in the prior year. For that reason BrandLoyalties.com shows their brand loyalty rankings for both the trailing 12 months (the blue line in the above chart, where the current equity-specific seasonality can be seen) and for months 13-24 back (the green line, where divergences or shifts from the blue line indicate changes in citation seasonality -- signaling possible upside or downside revenue surprises).

According to BrandLoyalties 's Tony Seker **:** "Just prior to this year's spring earnings season our clients saw that Garmin's real-time seasonal pattern of online consumer brand citation rates had changed significantly from year to year -- signalling the likelihood of a much stronger first quarter 2014 revenue for GRMN. Our clients had this information well in advance of GRMN's surprising April 30th report of a 10% YOY revenue growth. We had a 'buy' signal in place from early February through late May -- during which time Garmin Ltd's price appreciated by over 34%." Tony noted that in general the changes in consumer citation rates give his clients up to a 10-week "heads up" warning on substantial equity pricing movements in either direction.

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. Similarly, rankings in the bottom 20% are considered "sell" signals, while rankings in the lowest 10% are clear "strong sell" warnings. Those kinds of upper or lower extreme rankings for the brand names of an equity often occur just weeks before those corporations issue changing guidance or surprising earnings reports.

Recent "upside" opportunities signaled by changing brand loyalties include **:**

Symbol	Equity Name	Signal Duration	Equity Price Appreciation
AAPL	Apple Inc.	04/14/2014 to 07/09/2014	**28.10%**
BIG	Big Lots, Inc.	01/17/2014 to 04/14/2014	**35.59%**
CMG	Chipotle Mexican Grill, Inc.	05/15/2014 to 07/10/2014	**21.11%**
GRMN	Garmin Ltd.	02/03/2014 to 05/28/2014	**34.51%**
HAST	Hastings Entertainment, Inc.	03/06/2014 to 05/27/2014	**62.98%**
HRB	H&R Block, Inc.	04/14/2014 to 06/19/2014	**19.46%**
MCS	The Marcus Corporation	01/31/2014 to 04/21/2014	**35.07%**
RT	Ruby Tuesday, Inc.	03/10/2014 to 07/10/2014	**23.29%**

If you would you like to know more about BrandLoyalties.com or how the marketing strategies of your favorite consumer-oriented equity are playing out in "real time", please reply to this e-mail or contact **:**

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How Does BrandLoyalties.com Track and Rank Brand Loyalties?

BrandLoyalties.com is a unique quantitative research provider to "best-practices" 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 equity'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 is 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 -- a lag time that is dependent on equity-specific details such as fiscal reporting calendars and the length, complexity and inertia of the corporation's product distribution channels. BrandLoyalties.com provides 'best fit' lag times to clients for each security to help portfolio managers optimize the timing of their transactions.

Clients may also choose to opt-in for daily email alerts which highlight the equities exhibiting the most significant trends. While data aware investors are naturally interested in identifying equities with growing real-time brand loyalty, clients 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 36.22% as compared to the S&P 500's 5.72%. (Results from roughly 1,900 one-year Monte Carlo portfolio simulations covering January 3, 2006 through July 10, 2014, each portfolio chosen exclusively from 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.