BrandLoyalties.com Special Commentary

08/03/2014: Maintaining Alpha in "Challenging" Markets: Real-Time Brand Loyalty Measurements

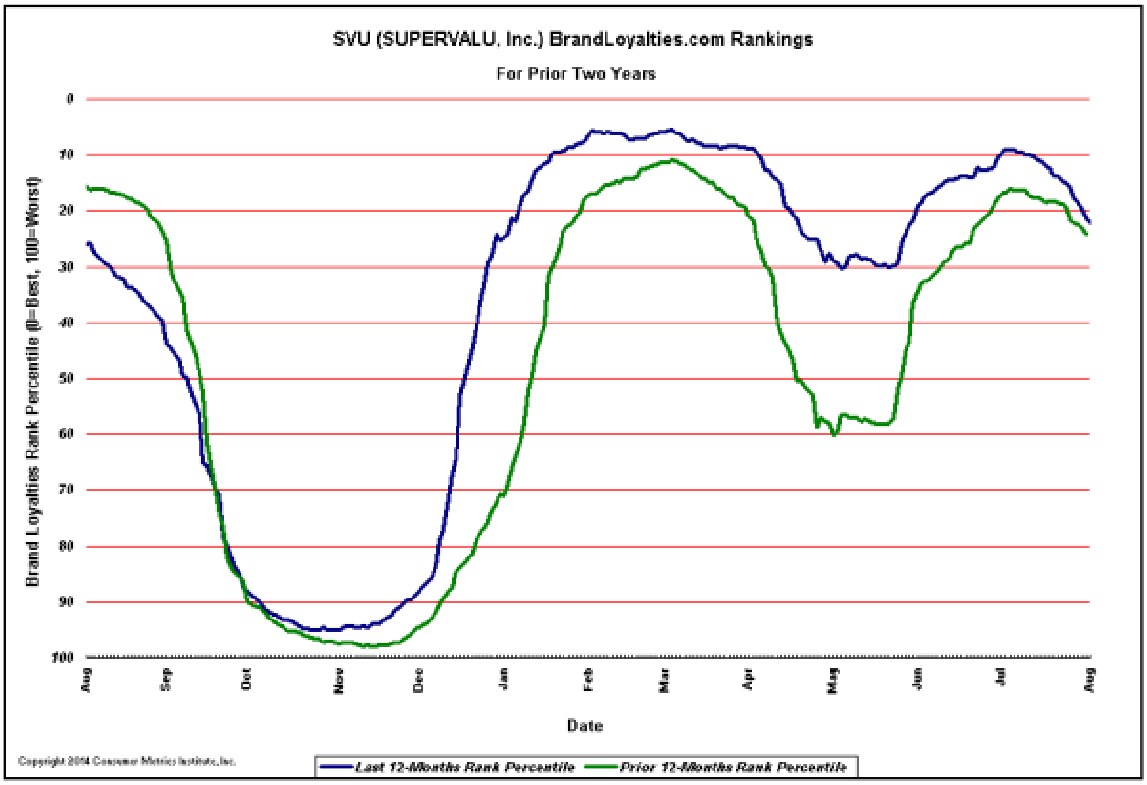
(Web page version is here)

Maximizing "Alpha" during corrections can be a challenge: what worked well going up is not necessarily going to work when the market is experiencing a cyclical or systemic correction. In fact, it is at such times that the better portfolio managers separate themselves from the rest of the herd. They often have tools that help them identify "outlier" equities which will defy to some extent the overall downdraft (or alternately be particularly hard hit by that downdraft) and eventually respond especially well when the correction is over. One of those tools happens to be real-time Brand Loyalty measurements at BrandLoyalties.com .

The 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) could have substantially aided portfolio managers during the extremely difficult two years 2008 and 2009. A benchmark portfolio weighted similarly to the S&P 500 experienced annualized losses during that two year time span of about -11%. However, according to BrandLoyalties 's Tony Seker **:** "A portfolio of the top ranked 10% of BrandLoyalties.com tracked equities would have had an annualized gain of over +36% -- generating an alpha over the two years in excess of 47%. That alpha was generated by identifying both the equities least likely to be severely impacted by the downdraft (2008) and the equities most likely to recover soonest when consumers returned to normal spending patterns (2009)."

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 recent example of an upside opportunity from the spring 2014 "earnings season" was provided by SUPERVALU, Inc. **:**

SVU (SUPERVALU, Inc.)



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One thing a "best practices" 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).

Again BrandLoyalties 's Tony Seker provided some insight **:** "Just prior to this year's spring earnings season our clients saw that SUPERVALU's real-time seasonal pattern of online consumer brand citation rates had changed significantly from year to year -- sharply reversing the negative YOY results that we had been seeing over the prior year. Our clients had this information well in advance of SVU's April 23th report of a significant turnaround in earnings." Tony noted that in general the changes in consumer citation rates give BrandLoyalties.com 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 other "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%**
BGI	Birks Group Inc.	07/02/2014 to 08/01/2014	**19.13%**
CMG	Chipotle Mexican Grill, Inc.	05/15/2014 to 08/01/2014	**36.14%**
GRMN	Garmin Ltd.	02/03/2014 to 05/28/2014	**34.51%**
HRB	H&R Block, Inc.	04/14/2014 to 06/19/2014	**19.46%**
MED	Medifast, Inc.	02/24/2014 to 05/05/2014	**15.70%**
SKX	Skechers USA Inc.	05/05/2014 to 08/01/2014	**27.16%**
TIF	Tiffany & Co.	03/27/2014 to 05/27/2014	**15.23%**
UHAL	Amerco	04/01/2014 to 05/12/2014	**16.53%**
ZUMZ	Zumiez, Inc.	02/20/2014 to 05/05/2014	**15.17%**

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 **:**

Tony H. Seker, Executive Vice President
BrandLoyalties.com

Direct: +1 201-886-0939
Email: Tony@BrandLoyalties.com
Web: www.BrandLoyalties.com

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% as compared to the S&P 500's 5.74%. (Results from roughly 1,910 one-year Monte Carlo portfolio simulations covering January 3, 2006 through August 1, 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.
