

BrandLoyalties.com Special Commentary

11/17/2014: "Smart Beta" Meets "Big Data"

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

Two of the sexier (and arguably most ill defined) terms being bandied about among portfolio managers these days are "Smart Beta" and "Big Data". "Smart Beta" seems to cover an astounding variety of "quantamentalist" approaches that use nearly anything other than an allegedly "dumb" market cap number to quasi-passively (or semi-actively) weight investment portfolios. "Big Data", on the other hand, refers to the vast amounts of data generated (consciously or unconsciously) by billions of people every day as they leave digital tracks behind when they simply go about their smart phone and social media addicted lives.



But what if a new form of "fundamental" data can be extracted from "Big Data"? One that can be used by quantamentalists to help weight portfolios in both alpha- and beta-smart ways? One that gleans some understanding of shifting consumer tendencies that could impact whole industries, market segments and/or individual equities in the near future? One that could be utilized to help actively managed portfolios (or their hot new "ETMF" variants) out perform their respective benchmarks when the recently Fed compressed intra-stock correlations revert to longer term averages?

A new corporate fundamental available in "Big Data" can be loosely referred to as brand loyalties -- a fundamental that was very successfully used by Peter Lynch from 1977 to 1990, using a much smaller scale network of friends, colleagues and occasional focus groups. "Big Data" simply allows those methodologies to expand to millions of participants while simultaneously tightening the sampling time resolution to every single day.

"Big Data" is big in the sense that it comprises the billions of daily on-line product searches, coupon queries, price comparisons, posts at product review forums, store location or hours queries, auction site activity, restaurant reservations, mobile app inquiries ("Siri, where is the nearest Starbucks?"), Facebook "likes" and "unlikes" or simple tweets (#LoveMyTesla). The infrastructure, technical resources and specialized knowledge necessary to quickly make sense of such vast amounts of data is often beyond the scope and available man-power of existing in-house researchers at most asset managers. Fortunately for them, [BrandLoyalties.com](#) offers a suite of "Big Data" metrics that are updated daily -- all for typically much less than the cost of an added analyst.

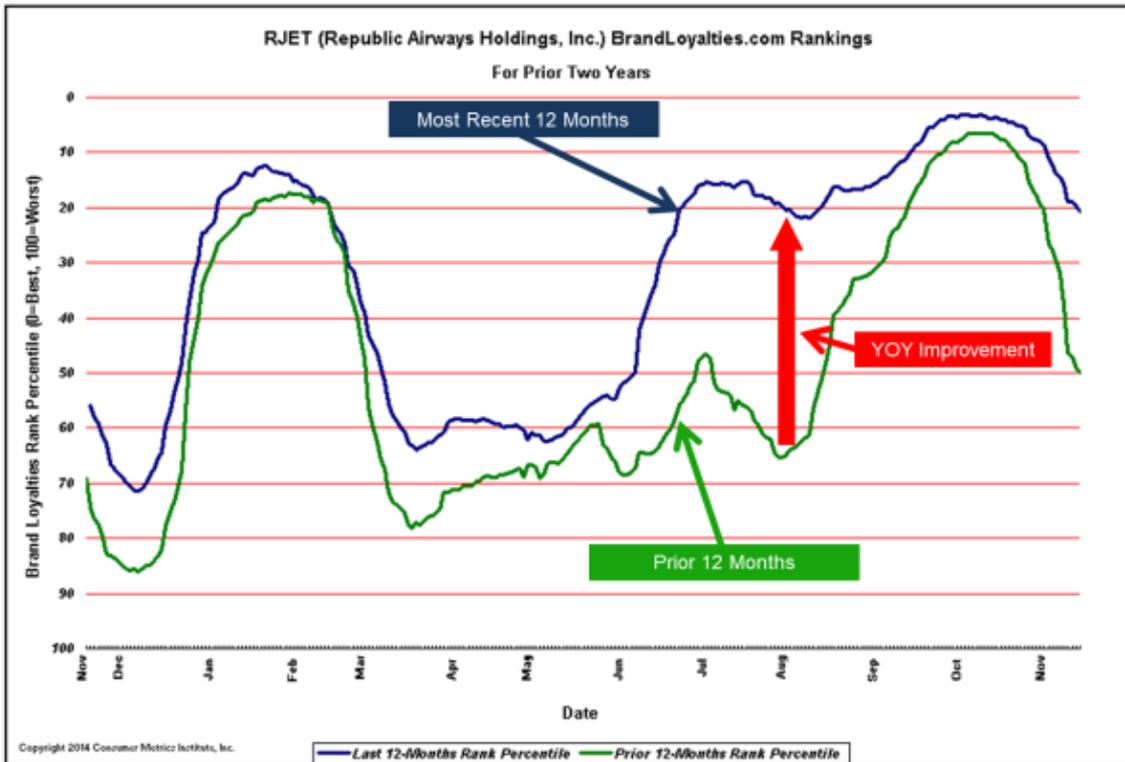
The comprehensive suite of metrics at [BrandLoyalties.com](#) includes the real-time rankings of over 500 major equities based on the constantly changing volume of on-line brand name citations, changes in the citation "share" of those equities over the trailing quarter, the historic correlation of such citation shares to reported revenues and equity price movements, the consumer's current mood concerning those brand names, investor citation rates and current opinion of those equities, and alerts for sudden changes in citation rates that may signal an unfolding or significant PR event.

According to [BrandLoyalties](#) 's Tony Seker : "The markets are likely approaching the end of an investment era when passive cap-weighted indexes have greatly benefited from low sector

dispersion and high equity price correlations -- all of which made it more challenging for active managers to outperform their passive colleagues. The recent rise of 'Smart Beta' approaches are a testament to an upcoming sea change in investment styles -- to those that can utilize at least some form of fundamental data. We believe that the innovative new fundamentals that we derive from 'Big Data' can be a way for portfolio managers to separate themselves from their peers by adding alpha to semi-active 'Smart Beta' portfolios."

As an example, the BrandLoyalties.com metrics suite can provide quantamentalists with "Smart Beta" investment model inputs that are tied to the likelihood of improving revenues :

RJET (Republic Airways Holdings Inc.)



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

The above chart visualizes the value of YOY comparisons of the "Big Data" share of brand name citation rates when determining the weighting of positions in managed funds. In this particular case the YOY improvement in the "Big Data" brand name citation share growth rankings indicated that RJET's revenue was likely to be improving materially after the end of their March 31st quarter.

Again, from BrandLoyalties.com's Tony Seker : "Another key aspect of our data is that our entire suite of metrics is derived exclusively from the study of the lexicons of publicly available consumer internet 'Big Data'. As such it is intrinsically free of insider information -- while paradoxically providing insights that even those insiders won't have about future corporate revenues being originated (or still being planned) by consumers at the far end of their corporation's distribution channel."

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 download our highly informative "[White Paper](#)", watch our "[Big Data](#)" video , 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 behavior to generate forward looking daily signals based on shifting consumer loyalty to (and opinion of) the brands of over 500 publicly traded equities. They track over 100 million daily online consumer choices and identify which equities are likely to be impacted (positively or negatively) by changing consumer opinions of 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.

The suite of metrics also includes changes in year-over-year citation share over the trailing quarter and the historic correlation of such citation rates to reported revenues and equity price movements. Consumer opinions are also captured for the brand names, as are investor interest in (and opinion of) those very same equities. Additionally, alerts are provided for sudden changes in citation rates that may signal unfolding or significant PR windfalls and/or nightmares.

Clients may also choose to opt-in for daily email alerts which highlight the equities exhibiting the most significant changes. 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, rapidly changing opinions or major PR events.

