BrandLoyalties.com Special Commentary

12/08/2015: A Tale of Two Retailers: ULTA and ZUMZ

(Web page version is here)

As you know, BrandLoyalties.com uses over 100 million online consumer citations each night to provide our clients with daily rankings of US and Asian listed equities, based on the popularity of their underlying brand names among on-line consumers. While our resulting proprietary percentile ranking statistic has demonstrated significant alpha (the top quintile of all ranked equities has outperformed the SP500 by over 10% per year from 2006-2014), another valuable metric, helpful in guaging sales and revenue growth is the YOY change in percentile ranking (or YOY change in market share). Last week, the YOY statistics for ZUMZ and ULTA provided precisely these insights ahead of their third quarter corporate announcements.

ZUMZ (Zumiez, Inc.)
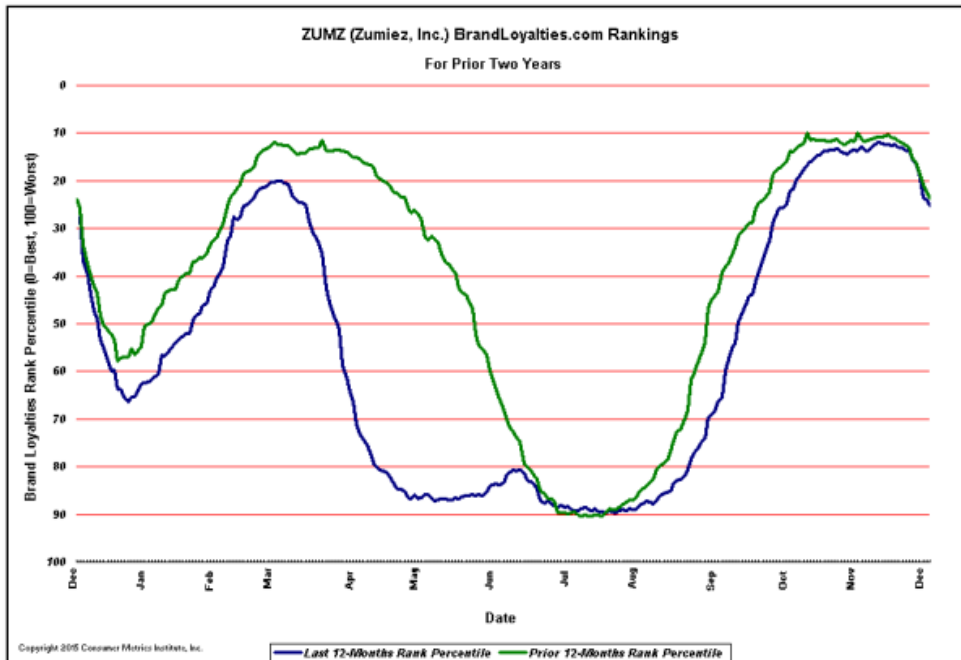
(Click here for best resolution)

As you can see from the above chart, ZUMZ had exhibited weak YOY citation share (green line above blue, losing share) which was a reason to be cautious ahead of their earnings report. Furthermore ZUMZ was not in our top 20% (Buy) of ranked equities(again, our primary indicator for bullishness).

ULTA (Ulta Salon Cosmetics & Fragrance, Inc.)

ULTA (Ulta Salon Cosmetics & Fragrance, Inc.) BrandLoyalties.com Rankings
For Prior Two Years
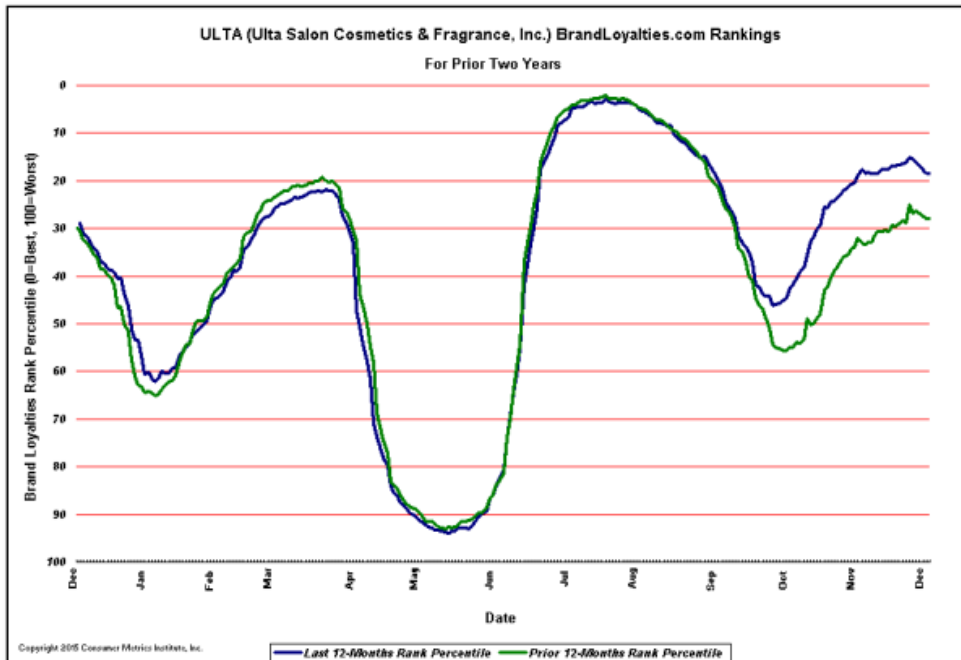
(Click here for best resolution)

On the other hand, ULTA was indeed in our top 20% of over 500 ranked equities, and their YOY citation share grew during their fiscal Q3. These indicators, not to mention a high historic correlation to equity price, were very bullish.

If you are interested in learning more about BrandLoyalties.com or perhaps a specific equity, please contact me.

Best wishes for the holiday season, and a happy new year.

Tony

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How Does BrandLoyalties.com Track and Rank Brand Loyalties?

In the largest and timeliest "focus group" ever assembled, each and every day hundreds of millions of people disclose exactly what products they like and which they avoid. They do so mostly unconsciously, by leaving behind on-line digital clues that define their preferences as consumers. The challenge is extracting these brand loyalty declarations from the eight *zettabytes* of on-line cat videos and other digital debris. But when done right, resourceful portfolio managers can deduce the level of consumer activity at the leading edge of corporate revenue streams -- capturing shifting brand loyalties before even "corporate insiders" fully grasp how their own customers are behaving.

The fundamental new corporate metrics available from "Big Data" derive from on-line consumer citations of the brand names owned by those corporations. Year-over-year changes

in brand name citation rates, the current quarter's citation growth rates, and relative citation "share" are becoming the key anticipatory metrics for upcoming corporate revenues.

These new fundamentals are currently being used by major hedge funds and institutional investors. And "Big Data" has recently become the summer's hot topic in the Journal of Index Investing. The reason is simple: roughly 40% of the Russell 3000 have strong and persistent correlations between citation share growth and revenue growth.

"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). "Unfortunately, the infrastructure, technical resources and specialized knowledge necessary to quickly make sense of such vast amounts of data is often beyond the scope of existing in-house researchers at most asset managers," explains BrandLoyalties.com 's Tony Seker. "Yet it is these very same metrics that are now providing a key edge to major hedge funds and institutional portfolio managers. We see it as our job to provide those metrics in a simple and practical form."

The comprehensive suite of metrics at Tony's BrandLoyalties.com includes the real-time rankings of over 500 major US equities (plus another 300 Asian corporations) based on the constantly changing rate 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.

Signals derived from BrandLoyalties.com's proprietary metrics can be 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 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.