BrandLoyalties.com Special Commentary

09/13/2016: Using "Big Data" Metrics for Shorts and Sub-Dollar Stocks

(Web page version is here)

We have been asked many times if consumer driven "Big Data" metrics can be used to identify potential shorts, and if they can be used for smaller cap or low priced equities. Two recent situations can be used to illustrate the value of BrandLoyalties.com's proprietary metrics for both shorts and stocks with depressed prices.

As you may recall, BrandLoyalties.com scans through "Big Data" each night looking for the corporate brand names that consumers mention in on-line searches or in social media postings. We call each of these brand name mentions a "citation," and we carefully track over time the growth in the "luminosity" of the citations of the brand names of over 1,200 publicly traded corporations.

We then determine how well those brand name luminosities correlate to forward-looking corporate revenue and stock price movements -- essentially measuring how useful each corporation's brand name citation growth rates are as a revenue forecasting tool.

Strong relative growth rates in brand name citations has historically identified consumer equities that are the most likely to outperform. We have helped hedge funds and institutional asset managers use those metrics to obtain significant excess returns in long portfolios.

But what about weak or negative growth rates in brand name "luminosity"? Can they be used to identify equities likely to underperform?

In some cases that seems to be true:

GIII (G-III Apparel Group Ltd.)

(Click here for best resolution)

The above chart plots the daily "Big Data" brand name citation share growth for G-III Apparel Group Ltd. (GIII) for the past 24 months, with the earlier 12 months in green and the latest 12 months in dark blue.

As you can see, GIII has been a laggard in our database for an extended period of time, consistently lingering in the bottom quartile of over 1,200 ranked equities. In addition, their YOY citation market share, or online popularity, has been waning. On August 30th they reported a significant miss on earnings.

And what about low priced stocks?

BEBE (BEBE Stores Inc.)

(Click here for best resolution)

BEBE Stores Inc. illustrates that as long as the underlying "Big Data" brand name citation luminosity is statistically significant the equity price is not a concern. BEBE is a well known name in the retail industry, but the equity has dropped from $7/share just a couple of years ago to as low as $0.33/share as recently as June 2nd. Our data issued a BUY signal on June 9th and the stock rose as high as $0.87/share on August 19th. While the equity price may impact liquidity concerns, it has little effect on the reliability of our metrics.

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 latest 10 minute "Big Data" video (as presented at the Franklin Templeton AIR Summit 2015), read our article in the Summer 2015 "Smart Beta" issue of the Journal of Index Investing , reply to this e-mail or contact **:**

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How Does BrandLoyalties.com Track and Rank Brand Loyalties?

Savvy investors have always been interested in gauging consumer loyalties. Traditionally, consumer surveys, focus groups and even retail traffic counters have been deployed to understand whether certain stores, brands and products may be gaining or losing market share. Perhaps most famously, Peter Lynch became an investing legend while managing Fidelity's Magellan fund, by maintaining an awareness of consumer preferences. Today, BrandLoyalties.com synthesizes over one hundred million online consumer citations every day to offer investors "Big Data" metrics for over 1,200 U.S. listed equities (plus another 350 Asian equities). These leading indicators are derived systematically from online consumer activity and may provide guidance and trend information ahead of quarterly earnings reports.

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 1,200 major US equities (plus another 350 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.