

THE BIG PICTURE

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Follow the Twitter feed to fat returns

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It was labelled “probably the most expensive tweet ever”. In just 21 words, US presidential hopeful Hillary Clinton’s pledge on Twitter, the microblogging platform, to tackle “outrageous” price manipulation by drugmakers wiped \$15bn off the value of pharmaceutical stocks last September.

It was not the first time a social media post had a big impact on markets. A bogus tweet about an explosion at the White House rapidly stripped up to \$90bn off the value of US stocks, although markets recovered quickly when it became apparent the information was false.

The impact those two high-profile tweets had on share prices highlights the growing relevance of social media in investment decisions and the complexities it brings.

Social media platforms have gained prominence when it comes to investing partly because traditional information sources, such as newspapers and newswires, are no longer always first with the news.

Twenty-eight per cent of news about mergers and acquisitions breaks on Twitter, according to a 2015 study by Selerity, a financial data platform made famous last year for publishing Twitter’s earnings before the social media company did.

Investors who ignore social media are at risk of missing out on potential opportunities, says Anthony Kruger, a product specialist at Markit, the data provider. “In financial markets, having information is key and having that information faster than your competitors can be a big advantage. That information is arriving on social media potentially a bit quicker than on other mediums.”

The most useful information on social media is not always the headline-grabbing tweets, he adds. There are thousands of apparently inconspicuous comments about businesses that appear online daily, all of which offer a glimpse into the market “sentiment” that surrounds a company.

A host of technology companies have sprung up to help investors understand this “sentiment” and other “investment signals” that can be found on social media. These start-ups plough through reams of information, including 500m tweets a day, to find out what is being said online about a company, using a combination of manual labour and machine learning (algorithms that learn and can make predictions based on data).

They also use artificial intelligence and natural-language processing, where a computer is trained to understand human speech. The aim is to come up with a positive or negative sentiment score that predicts price moves for thousands of stocks or sectors daily.

By tapping into sentiment before the story fully plays out in the market, investors who have access to this information will supposedly be at an advantage to their peers. Richard Peterson, managing director of Marketpsych, which provides software that identifies and quantifies sentiments, says: “This is leading data, rather than lagging data.”

According to Social Market Analytics, a company that provides sentiment scores, investors that traded its “overnight sentiment winner” during the past two years would have beaten the S&P 500 by 80 per cent.

Mr Kruger says: “If you bought the stocks that scored high [in terms of sentiment] and [sold] the stocks that rated low each day, you can expect to beat the market.”

Many investors have been anxious to get in on the action, particularly quantitative hedge funds and brokers.

Some traditional asset managers are also looking into this area. BlackRock, the world’s largest asset manager, has hired Bill MacCartney, a former scientist at Google, the technology company, to help it with this.

The US fund house, which has a base in Silicon Valley, the centre of the multibillion-dollar global technology industry, also said last year it was in discussions with Google to form a joint venture aimed at using the power of artificial intelligence to improve investment decisions.

Simon Weinberger, a member of BlackRock’s scientific active equity team, says the company is using social media “to capture views across groups of market participants that were previously not available, hopefully enabling us to generate better and differentiated investment outcomes for our clients”.

BlackRock says 90 per cent of its scientific active equity assets outperformed their benchmark for the three years to the end of 2015.

Mr Weinberger admits, however, that finding useful and accurate information on social media is not always simple. “The biggest challenges are reducing the noise while focusing on what is really relevant,” Mr Weinberger says.

NN Investment Partners, the €180bn Dutch fund house, incorporated sentiment metrics into its decision-making process two-and-a-half years ago, in a move it says gives it a competitive advantage over its peers.

Valentijn van Nieuwenhuijzen, head of multi-asset at NN, says: “[Social media signals are] never the only thing we look at, but for many of our asset allocation calls, it is part of the process.”

“The big advantage is it is more timely and it feeds into one of the biggest change processes that is happening right now: the digitalisation of our world.”

Jet Lali, head of digital at Alpha FMC, a specialist asset management consultant, says: “We are seeing more and more firms setting up sentiment monitoring as an early warning system.” These new sentiment monitoring systems are sitting alongside asset managers’ Bloomberg terminals.

Not all long-term fund houses are convinced asset managers should be looking to social media when making investment decisions. A spokesperson for Allianz Global Investors says the focus on short-term sentiment does not fit with the German fund house’s long-term outlook.

“If you think of social media and big data, there might be managers out there who try to take advantage of short-term positions. But we try to figure out what is happening in the long term,” he says.

Edward Bonham Carter, vice-chairman of Jupiter, the listed UK asset manager, agrees. “The reason I am a bit more cautious on that is we don’t see ourselves as having a particular edge on trading, and a lot of social media concerns very short-term trends,” he says.

The next big thing: Predictive big data analytics

AFAM Funds, the Swedish investment adviser, set up a mock fund portfolio in 2013 to study how big-data prediction analytics and modern-language technology could be used to find the best trading opportunities, reports **Chris Flood**.

The hypothetical fund trawls through the internet to find so-called trading signals, which

indicate that a stock should be bought or sold because the data suggest its price is about to go up or down.

Between August 2013 and September 2015, the simulated portfolio returned 36 per cent, compared with negative returns for the HFRX global hedge fund index.

The strong performance of the portfolio has attracted the attention of BlackRock, JPMorgan and a number of hedge fund managers.

Lars Hamberg, co-founder of AFAM, says machines that are capable of processing the internet's vast jumble of unstructured data produced in multiple languages into meaningful investment signals have only been developed in the past few years.

He says: "Predictive big-data analytics have been overhyped but they will deliver.

"The possibilities are mind boggling. Predictive big data analytics are the next new area for investment for hedge funds and quantitative managers after high-frequency trading."

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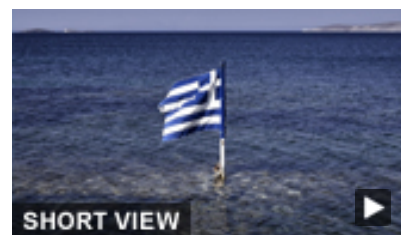
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