

# How To Use Alternative Data In The Hunt For Alpha

**Julien Jarmoszko, CFA**

Head of Investment Management Product Management, EMEA  
S&P Global Market Intelligence

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# Agenda

- 1** Introduction
- 2** Have we exhausted all the potential of traditional datasets?
- 3** Using alternative datasets
- 4** Combining Traditional and Alternative
- 5** Conclusion

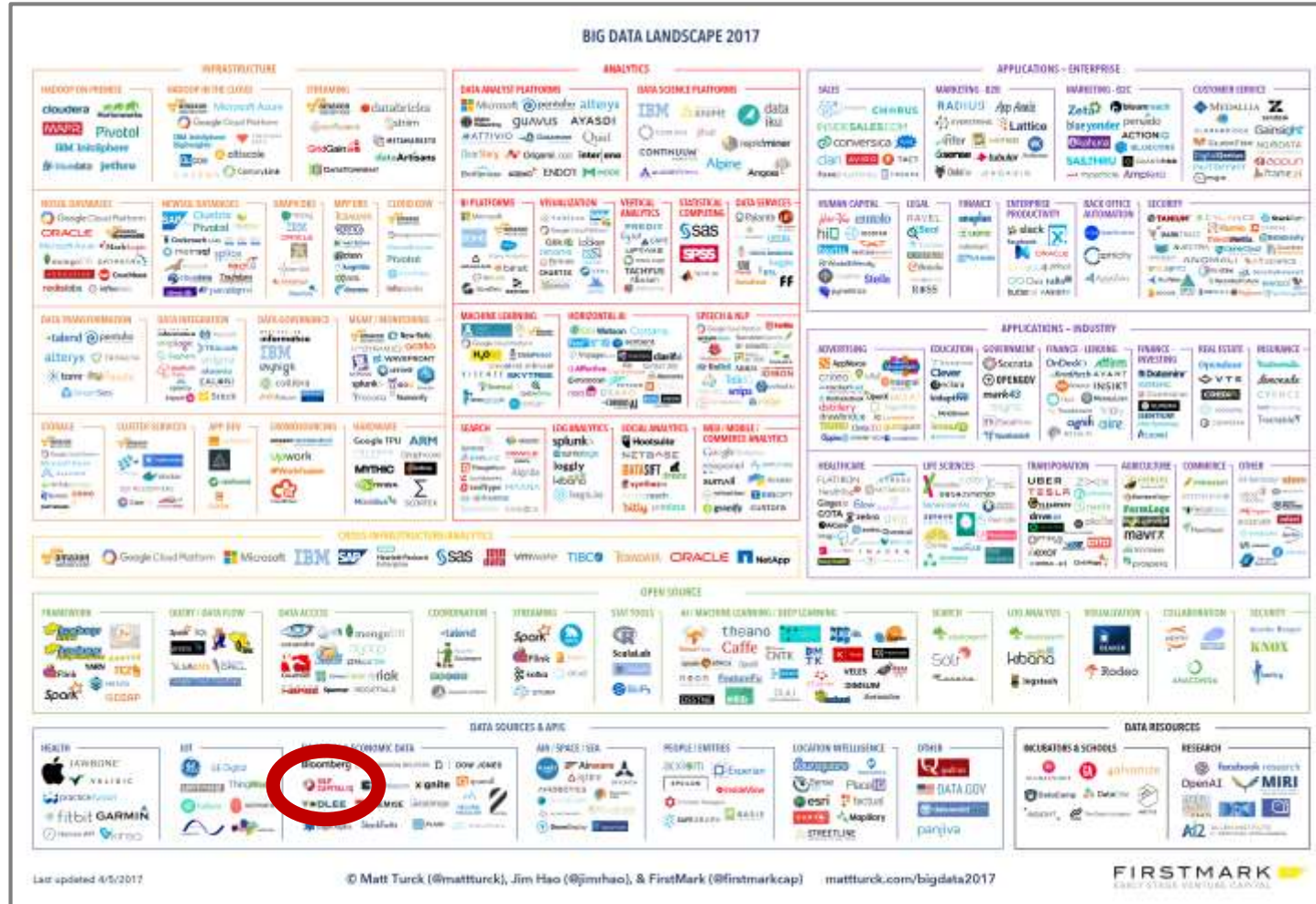
# 1. Introduction

# Some Ways To Profit In Capital Markets

- **Style (Value, Growth, Income, Mean Reversion...)**
- **Specialist**
- **Market Biases (anchoring, mantras, ...)**
- **Arbitrage**
- **Front-run or Follow Known Cash Flows**
- **Fundamental or Quantitative**
- **Active or Passive**
- **A mix of these**

**Common point: the need for data**

# Big Data Landscape



Source: FirstMark Capital as of April 2017. For illustrative purposes only.

# Why Use Alternative Datasets?

- Often uncorrelated
- Less noisy
- New sources appear frequently
- Retail / small investors can compete OR
- Can be exclusive

# Not A New Concept!

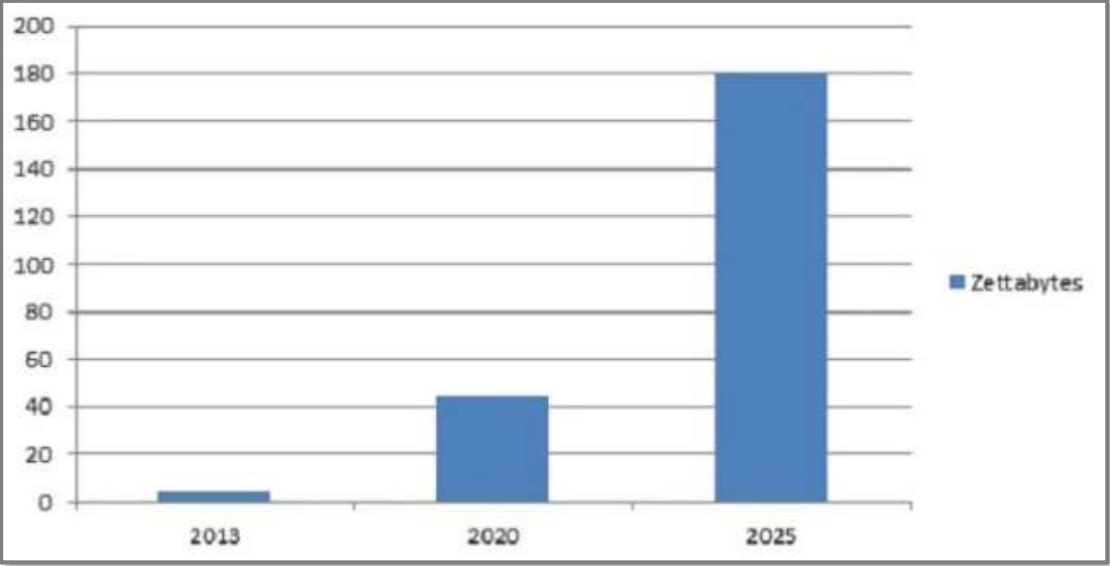
**“There's no question whatsoever that we could not have done what we did back then if I hadn't had my airplanes.”**

**“From up in the air we could check out traffic flows, see which way cities and towns were growing, and evaluate the location of the competition - if there was any.”**

*From: Sam Walton: Made In America, By Sam Walton With John Huey, [1993]*

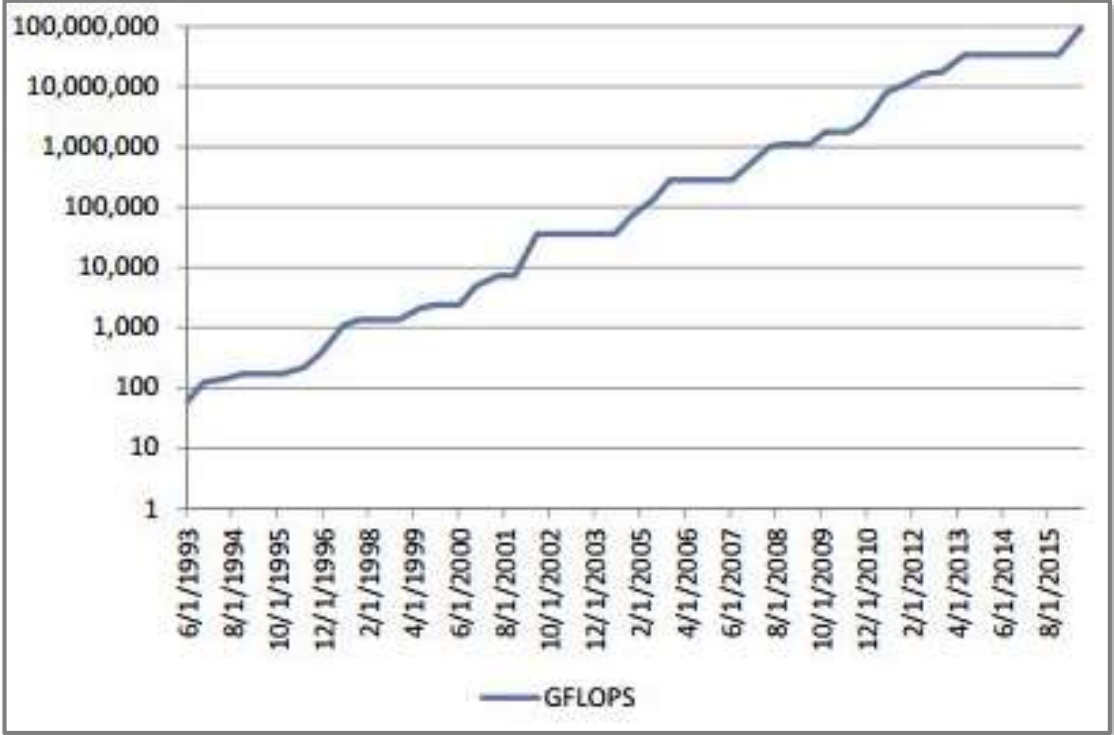
# New: Volume And Speed Of Data

Annual Data Generation In Zettabytes Is Expected To Reach 185 Zettabytes By 2025



Source: IDC, 2016. For illustrative purposes only.

Raw Computing Performance Of Global Supercomputers, Measured In Gigaflops



Source: Top500.Org, 2016. For illustrative purposes only.

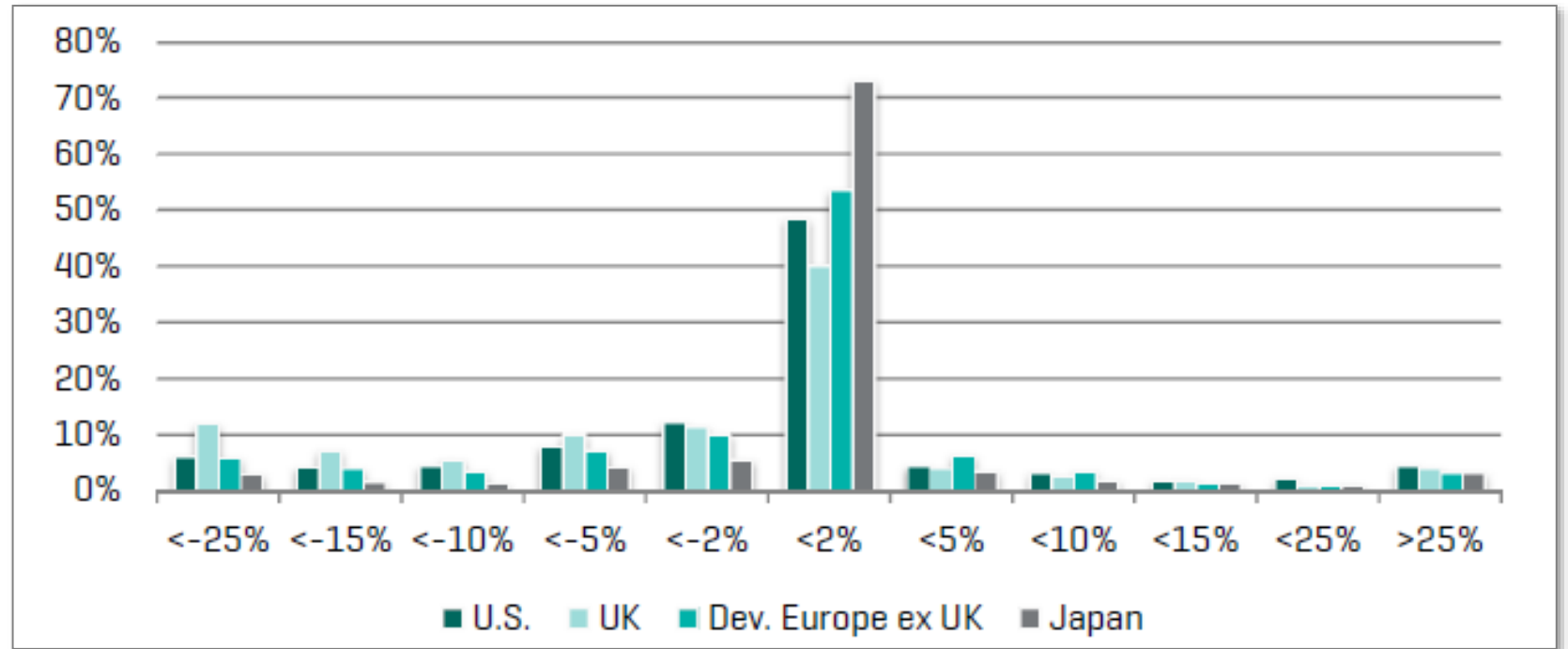


## 2. Have We Exhausted The Potential Of Traditional Datasets?

# Data Quality Can Still Make The Difference

- Point-in-Time vs. Lagged fundamentals?
- How do you deal with errors missed items or corrections?

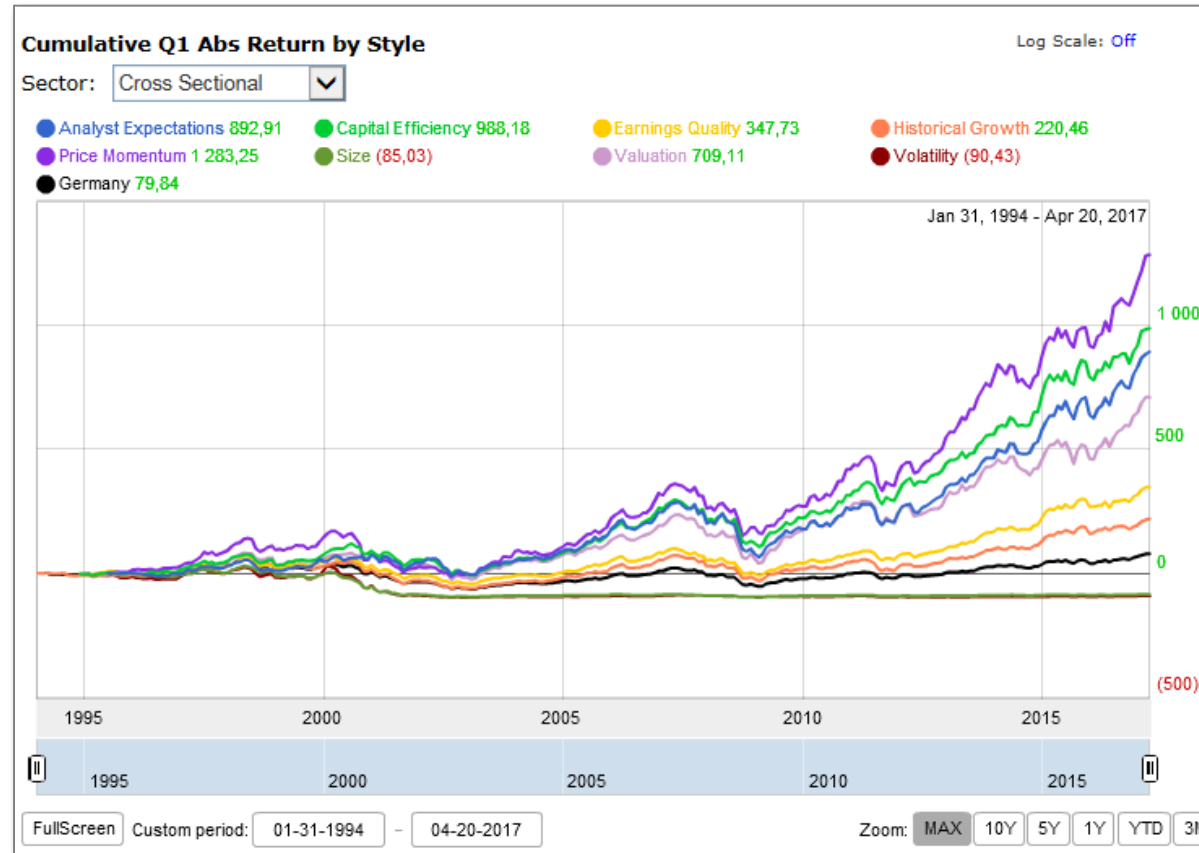
Magnitude Of Restatement Of FY Total Revenues Within 400 Days (%)  
1994 – 2014



Source: S&P Capital IQ, data as of March 27, 2015. For illustrative purposes only.

# Traditional Factors Continue To Be Differentiated

## Alpha Factors Library Main Styles For The German Universe – Cross Sectional, Equal Weight



Source: Alpha Factors Library, S&P Capital IQ, snapshot as of April 20, 2017. For illustrative purposes only.

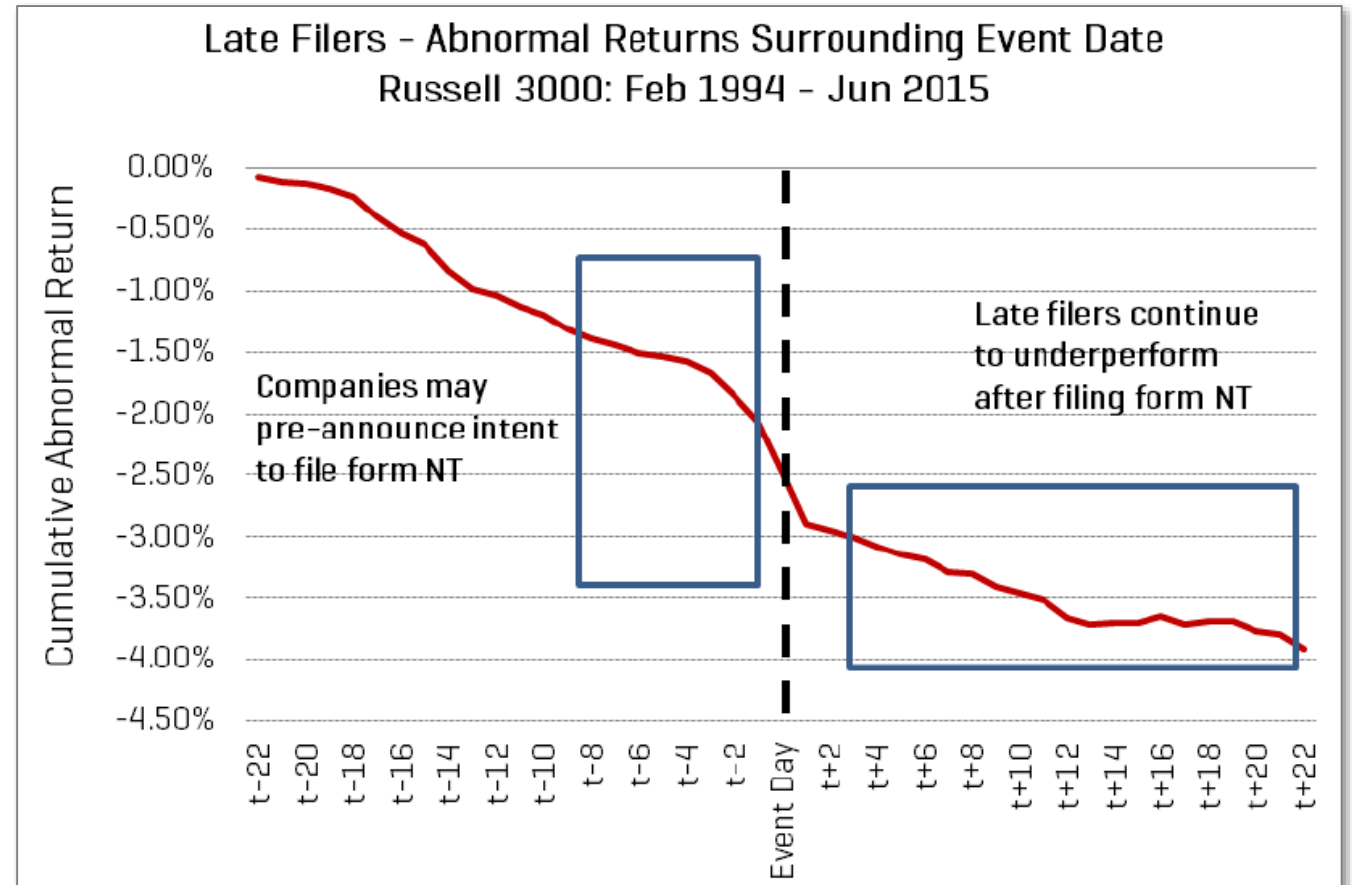
# Using Qualitative Data From Public Companies Reports

- **“Qualitative” datasets are computed off company public information**

- Ownership
- Corporate actions
- Events
- Press releases
- People

- **Example of delayed filings**

- Rare form of corporate event
- Significant impact on asset prices



Source: S&P Global Market Intelligence Quantamental Research. Data as of August 31, 2015. For illustrative purposes only.

# New Signals In Industry Focused Datasets

- **These datasets were not created to serve the investment community**
- **Yet they can offer great insights**
- **Example of SNL Global REITs**
  - Property-level data
  - Local demographics data
- **Example of SNL Global Banks**
  - US regulators enforcement actions
  - Colombian banks reporting

# 3. Using Alternative Datasets

# What Makes A Good Alternative Dataset?

Predictive Or Descriptive?

- **Scarcity**
- **Granularity**
- **History**
- **Structure**
- **Coverage**

# Issues To Resolve

- **What do we want to achieve with the data?**
- **Signal can disappear**
- **Data quality, missing values**
- **Often non quantitative**
- **Unstructured, not hierarchical, different formats**
- **Cross-referencing the data to the correct entity**
- **Cost**
  - Data acquisition
  - Data scrubbing
  - Data processing
  - Personnel



# 4. Combining Traditional And Alternative Datasets

# What About The Tide?

**If the tide shifts out off the coast of Peru,  
are you a buyer or a seller of soybeans futures?**



# What About The Tide?

- Problem enunciated by Victor Sperandio in his book Trader Vic – Methods of a Wall Street Master [1991]
- If the tide goes out, then **Buy Soybeans Futures**
- No dataset on its own will give complete information
- Best combine with traditional datasets

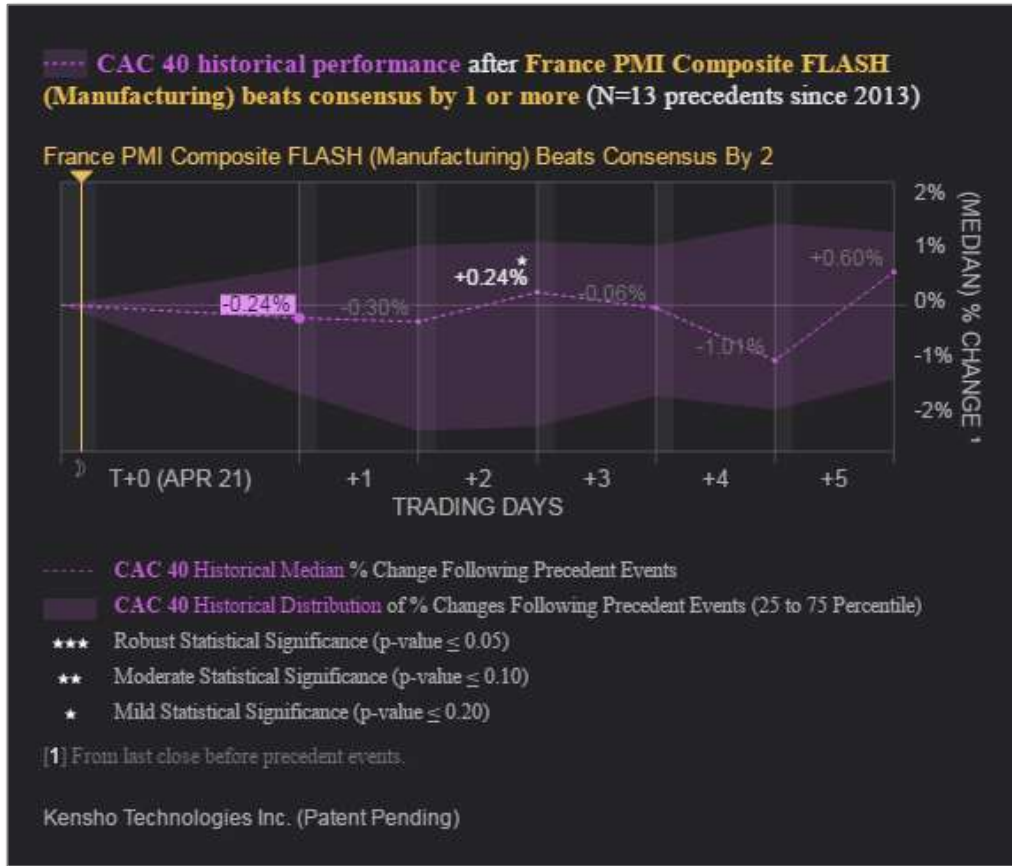
# Combining Traditional And Alternative

## Kensho: Machine And Humans

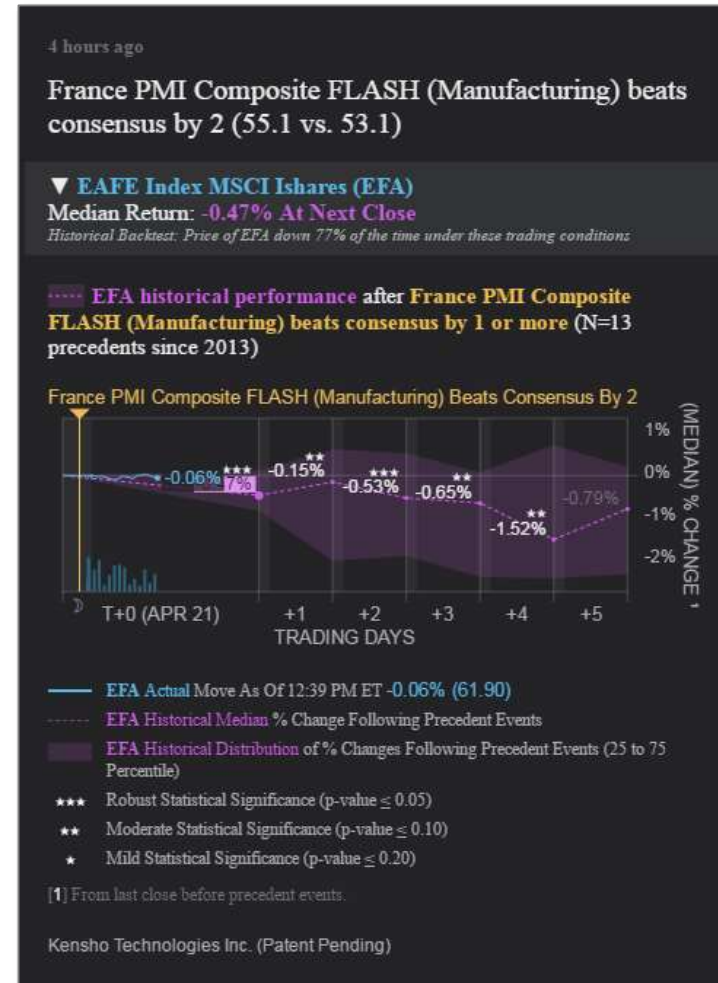
- **Traditional datasets**
- **Alternative datasets**
- **Machine finding unexpected relationships**
- **Humans applying common sense**
- **Results**

# Combining Traditional And Alternative

## Macro Level: How The French PMI Impacts The CAC40 Index And The MSCI EAFE Index



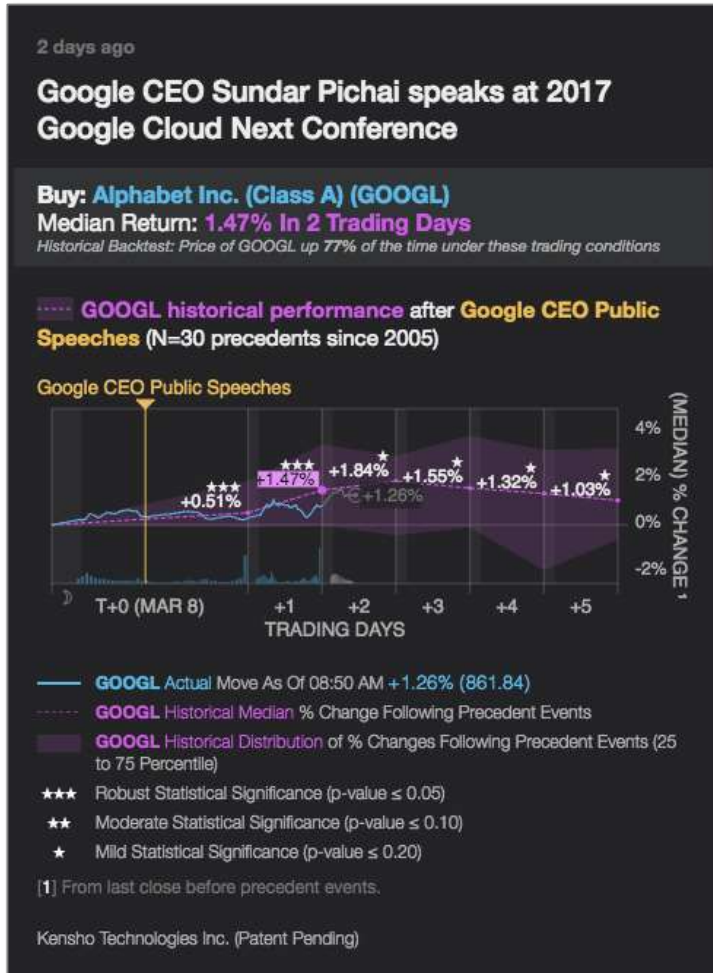
Source: Kensho Technologies as of April 21, 2017. For illustration only.



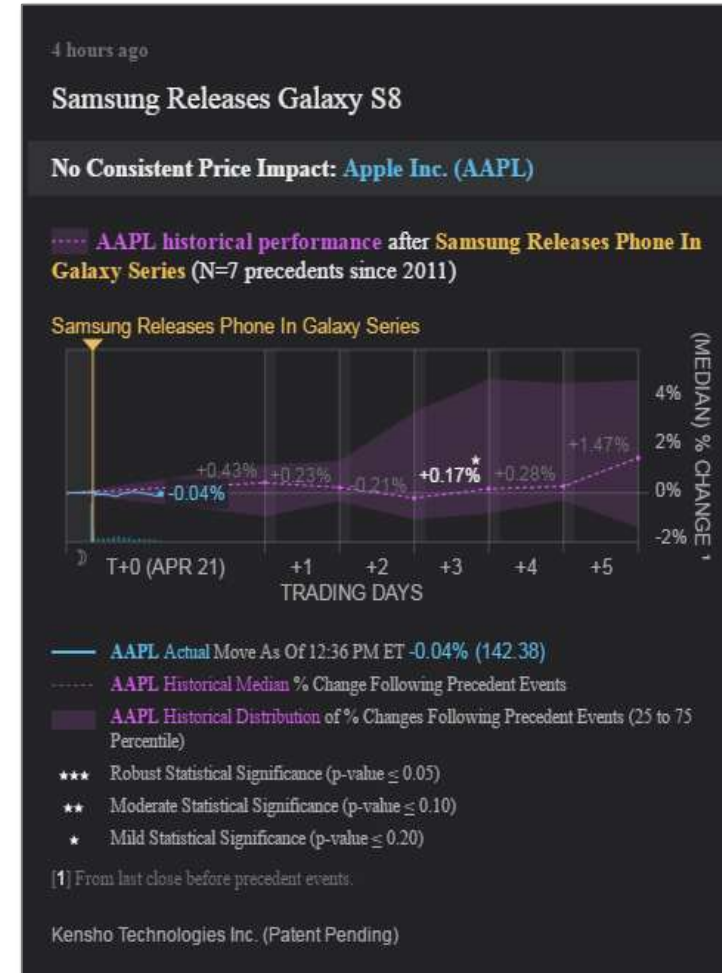
Source: Kensho Technologies as of April 21, 2017. For illustration only.

# Combining Traditional And Alternative

## Company Level: A Google Press Conference And Samsung's Impact On Apple

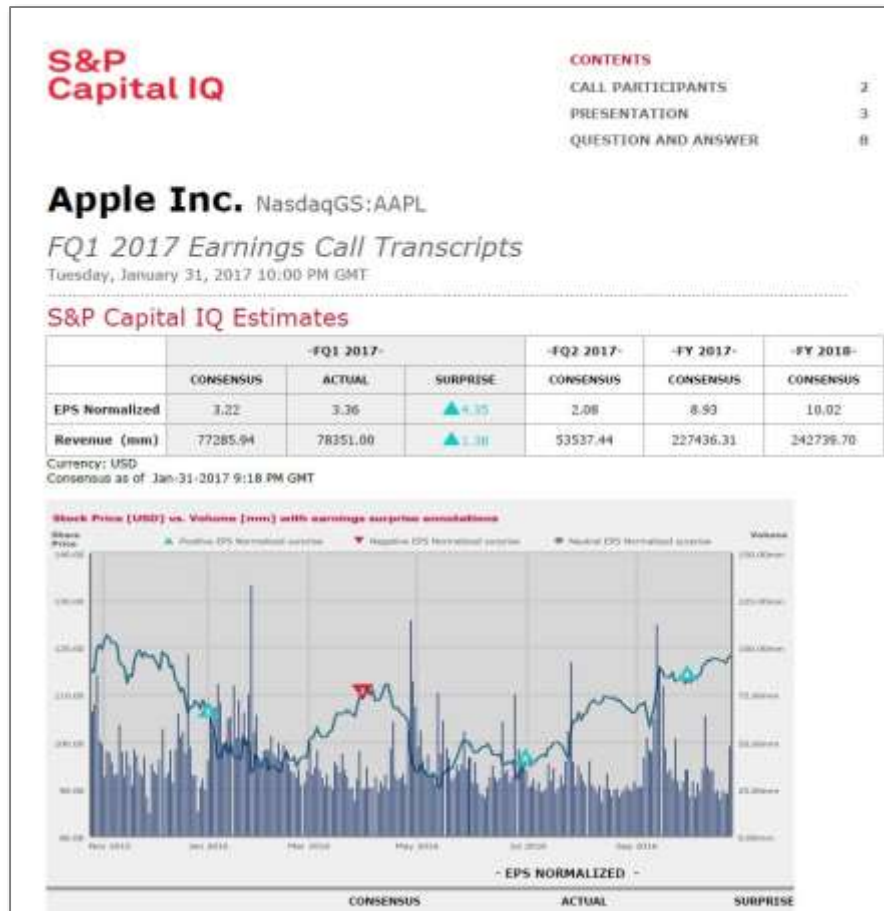


Source: Kensho Now platform as of April 21, 2017. For illustration only.



Source: Kensho Now platform as of April 21, 2017. For illustration only.

# Combining Traditional And Alternative Textual Analysis Of Transcripts



- **Company reports not the only impactful events – qualitative comments by management also have impact on asset prices**
- **Dataset characteristics**
  - Rare
  - Large coverage
  - Structured, enables machine learning
  - Live
- **Looking for**
  - Word associations
  - Characteristics of sentences
  - Impactful call participants and questions

Source: Snapshot of Apple Inc Q1 Transcript from the Capital IQ platform, as of January 31, 2017. For illustrative purposes only.

# 5. Conclusion



# Conclusion

- **Great opportunities around Alternative Data**
- **Need to be clear in what you are looking for**
- **Strong methodology remains vital, as with traditional datasets**
- **Combining traditional and alternative data**

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