

What is 'Alt' Data?

For finance professionals, access to the best data could be the difference between a successful investment and a failed strategy. As technologies improve and new data sources emerge, investment managers around the globe are rushing to add nontraditional sources to their investment data sets.

A recent study by [Greenwich Associates](#) found that over 60% of traditional asset managers and nearly 75% of hedge funds are already [using social media as part of the investment process](#). The study also raised an important point: Social media driven news is just one form of data professional investors look to when aiming to profit in increasingly competitive financial markets.

Let's examine some of the most utilized sources of alt data to understand how they fit into the decision-making process for hedge funds, mutual funds, and family offices looking to maximize their investment returns.

Social Media Data

On October 30, 2015, then-presidential-hopeful Hillary Clinton tweeted that "we need to end private prisons." Shortly after, [the stocks of two major private prison operators fell](#): Corrections Corp. of America fell 8%, while GEO Group tumbled 4%. If an investment manager had seen that Tweet first, they could have quickly entered a short-sale trade and profited from the drop in share price.

The days of reading the morning paper for stock price updates and breaking news are long gone. Traders can't afford to wait for stories to break on traditional news sources. Information found on social networks can provide unique and valuable insight into realtime news events breaking around the world.

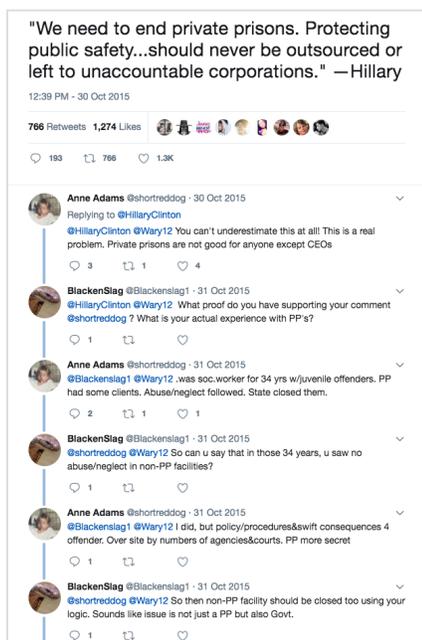
Satellite Data

Over 2,000 satellites orbit the Earth, each offering unique perspectives on customer

traffic at some of the world's largest retailers. For example, businesses such as RS Metrics look at parking lot volume for retailers like JCPenney, Sears, and Kmart, and have accurately predicted sales volumes weeks or months before retail numbers were publicly released.

From March 2015 to December 2016, Orbital Insight, a geospatial analytics company, noticed a stark decrease in the number of cars at [Chipotle restaurants](#) compared to strong growth in customer traffic over the previous five years. The unexpected decline in car traffic correlated to a 40% decline in stock price. Investors with this parking lot data in hand could have sold their shares to avoid losses or shorted the stock to profit on the slump in sales.

Satellite data can also help financial professionals better forecast critical investment inputs such as crop yields, factory output, and global oil supply. The value of this information is clear: If you can predict the volume of customers, health of a particular crop, or portions of the global oil supply, you can then infer overall business



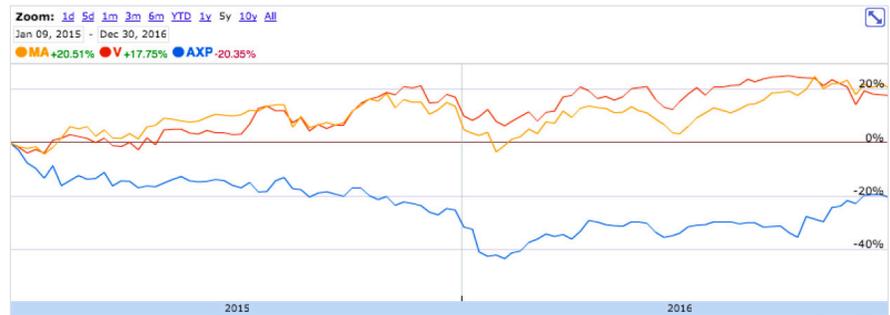
(<https://twitter.com/HillaryClinton/status/660179193381134336>)

Credit Card Transaction Data

From 2015 to 2016, payment volumes at Visa and MasterCard increased while American Express saw a decline in transactions, according to [NilsonReport](#). Not surprisingly, Visa and MasterCard saw their stock price grow over that time period, while AmEx fell.

Higher transaction volume means more revenue for retailers, card issuers, and processors, while lower transactions correlate to lower revenue. This data was once limited to financial industry players like ADP, Fiserv, and FIS. Today, it's heavily used by investment managers to predict how stocks and other investments will perform.

By analyzing credit card transaction data, investors have the ability to estimate sales at retail stores, gas stations, and other businesses, as well as look up the ecosystem to predict the impact on vendors and suppliers.



(Stock data and chart via Google Finance)

Weather Data

When a major hurricane hits, what is the business impact? Prior to the storm, there is typically a burst of activity as local residents stock up on food, supplies, and building materials. In the following days, stores often sit empty and closed as power and utilities are restored before shopping habits return to normal.

Major storms impact stock prices.

When Hurricane Harvey hit Houston in mid-2017, the storm not only affected the lives of millions along the Texas coast, but it knocked out oil refineries. Power outages

impacted utilities and virtually every business in the city. Insurance companies suffered billions in losses, and as the severity of the storm came into focus, home improvement stocks shot upward, with Home Depot increasing about 10% and Lowe's rising 5%.

Accurately predicting how weather events impact businesses gives investment professionals an edge. If analysts can go beyond severe weather and predict how even minor weather events affect businesses, they can create detailed trading models that predict everything from retail sales volumes to solar and wind energy outputs. While light rain may not seem like a serious issue, it can lead to major shifts in the markets.

Alt Data Today Is Scratching the Surface of What Is Possible

Nontraditional data is proving to be an **invaluable input** in how investors understand market trends and consume information. From using social media to identify real-time news alerts to leveraging satellite data to understand customer traffic at big-box stores, alt data is solidifying itself as the new normal for leaders in financial services.



(Stock data and chart via Google Finance)

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