IHS Markit®

Research Signals:
social media indicators

A suite of predictive social media sentiment factors to provide additional intelligence for generating investment decisions and supporting research for strategy development.

Social media datasets can open up a new, non-traditional source of data to support alpha generation. Our systematic social media indicators are designed to help gauge the market sentiment on stocks and identify potential buy and sell candidates.

The volume of social media information, (more than 800 million tweets are posted on Twitter per day) makes tapping into its potential value and deriving insight a challenge. Our social indicators use data from Social Market Analytics (SMA). Utilizing a proprietary extraction, evaluation and calculation algorithm, SMA extracts relevant tweets, validates the source and evaluates the meaning to measure positive or negative sentiment at security level. The SMA data also assesses the quality of the source to show meaningful volume and identify when behaviour deviates from the norm.

In addition to SMA's 15 core factors, we deliver seven social media indicators developed by IHS Markit to provide additional insight. For example, our proprietary volume adjusted sentiment score accounts for a positive skew in sentiment to names with the most tweets to provide a more stable time series.

Key Benefits

— **Actionable insight:** Includes indicators across tweet sentiment, volume, relative value, changing sentiment and dispersion, with out of sample historical coverage dating back to December 2011.

— **Uncorrelated:** Social media indicators are uncorrelated with standard sentiment metrics from equity, options and short interest markets and other traditional metrics such as price momentum.

— **Predictive:** IHS Markit empirical results show a cumulative return of 177% for the S-Volume™>3 filtered buy portfolio compared to a -45% loss for the sell portfolio since December 2011.

— **Idea generation:** Offers a new source of data to support idea generation and differentiate investment research and strategies.

— **Verified:** Independent studies by Deutsche Bank have shown that the predictive nature of the data holds across different investing horizons and strategies.

Social media indicators cover the following categories:

Tweet sentiment: Quantifies alpha-generating sentiment from tweets, filtered for financial trading relevance and scored for market sentiment content
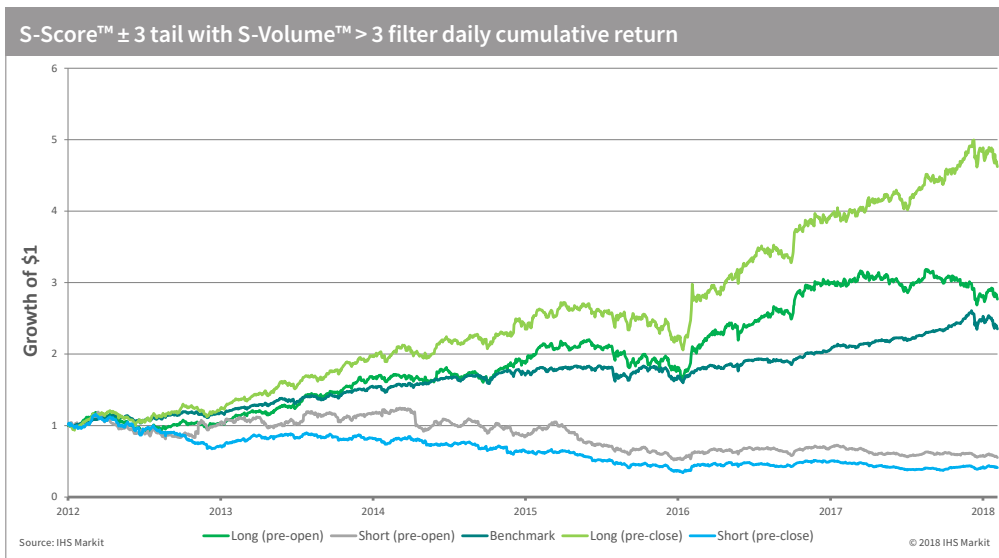
Tweet volume: Identifies increased interest in a stock

Relative value: Computes scores relative to the market and/or the stock's recent history to provide a clearer view of sentiment levels

Changing sentiment: Measures 1-day to 20-day look back signals to identify trends in the sentiment signals
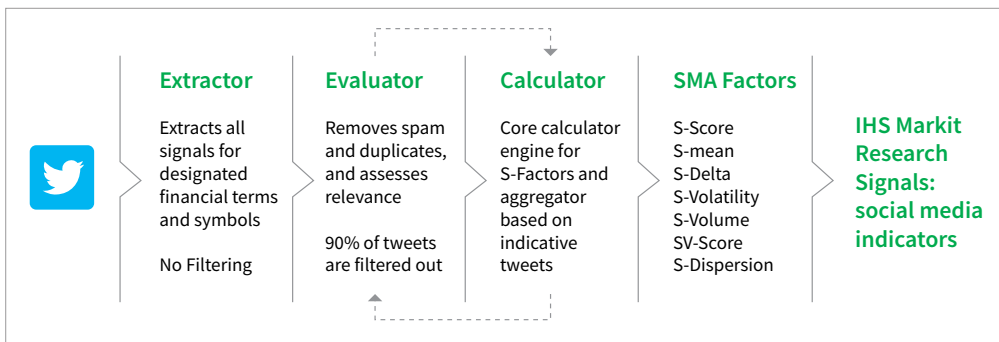
Dispersion: Assesses the number of unique tweet sources to gauge the validity of a signal

Social media signal contribution

S-Score™ ± 3 tail with S-Volume™ > 3 filter daily cumulative return

Source: IHS Markit

Legend: Long (pre-open) — Short (pre-open) — Benchmark — Long (pre-close) — Short (pre-close)

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An increasing cumulative return over a 6-year period shows that the signals contribute towards outperforming the SPDR S&P 500 ETF (SPY) benchmark

SMA process

Extractor

Extracts all signals for designated financial terms and symbols

No Filtering

Evaluator

Removes spam and duplicates, and assesses relevance

90% of tweets are filtered out

Calculator

Core calculator engine for S-Factors and aggregator based on indicative tweets

SMA Factors

S-Score
S-mean
S-Delta
S-Volatility
S-Volume
SV-Score
S-Dispersion

IHS Markit Research Signals: social media indicators

The SMA process extracts relevant tweets, validates the source and evaluates the meaning to measure positive or negative sentiment.

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