

Using Alternative Data for Stock Screening Purposes

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Summary

In our latest study, we offer an easy way for fundamental investors to incorporate alternative data, including news sentiment, by developing a stock screener to construct optimal equity portfolios. The screener can help discretionary investors narrow down candidates from a larger investable universe. We select companies with a high number of news events and high sentiment polarization, a task that can be achieved using our Sum Excess Sentiment Indicator (or SESI).

You can download the RavenPack white paper [here](#)

Here are some of the highlights:

- News Sentiment signals significantly outperform price momentum as a stock screener, for which probability distributions clearly demonstrate a positive shift and a 4x increase in average performance during the 8+ year backtesting period
- By creating targeted portfolios, we achieve high annualized returns (up to 80%) with attractive Information Ratios (IRs) of up to 4.0, but also high per-trade-returns (up to 33bps)
- When including a discretionary overlay, dropping 2 out of 22 daily trades, annualized returns and Information Ratios are boosted by up to 200%, depending on the PM's skill at removing bad performers

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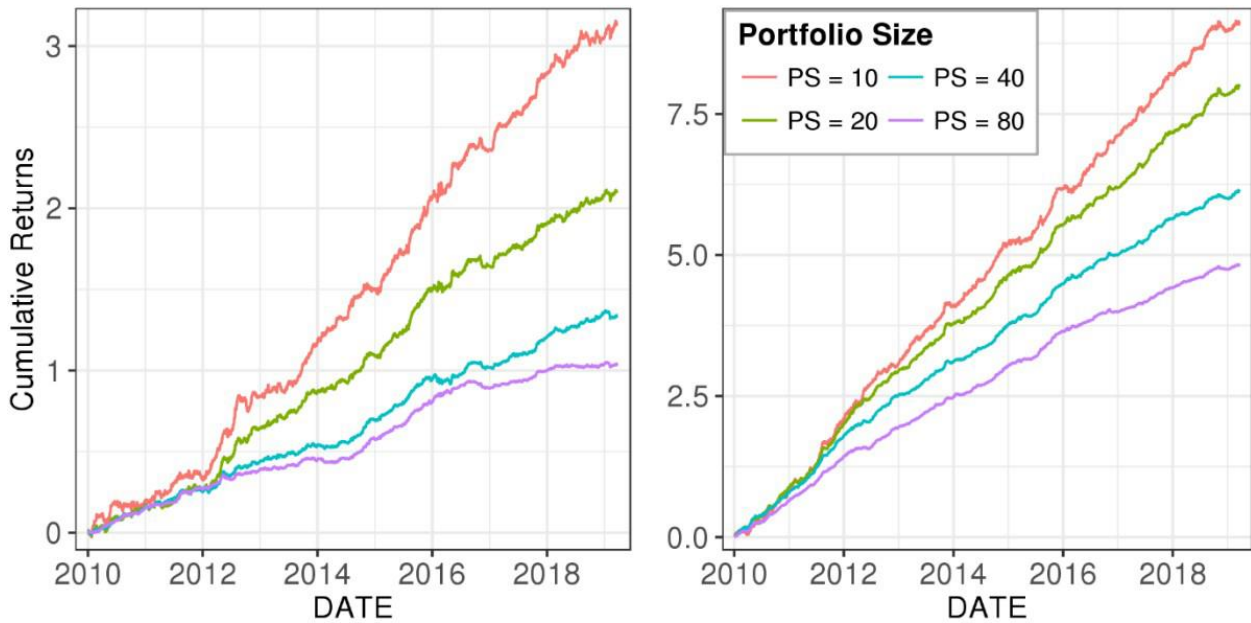
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Cumulative Returns for portfolios restricted to extreme sentiment signals (US). Cumulative Returns of equal-weighted long/short extreme sentiment portfolios of different size (PS) and for several holding periods (HP). Results for Large-cap (left) and Small-cap (right) companies.

Source: RavenPack, May 2019

Overall, picking stocks with extreme sentiment provides an effective way of reducing the number of companies that need specific trader attention, especially for short horizon trading strategies. The optimal size of the stock screen depends on the trader's capacity to perform deeper fundamental analysis of the constituent companies, his ability to add value to the pure sentiment driven strategy, and the risk he is willing to take when introducing his criteria.

If you want to learn more about this research study, or how other buy-side firms take advantage of sentiment data, don't forget to register for the upcoming RavenPack research symposium titled "[Big Data is the New Currency](#)" taking place on Sep 10th in NYC.

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