

Valspresso

Decoding Market Psychology



Sentiment Indicators for Generating Alpha

VALDX

Sentiment & Fundamental Indicators

Securing the future of ordinary people
by partnering with active managers to
generate persistent Alpha.

Coverage:

All U.S. publicly traded companies
Historical data available from 2004

Available on

Open: **FACTSET**[™]

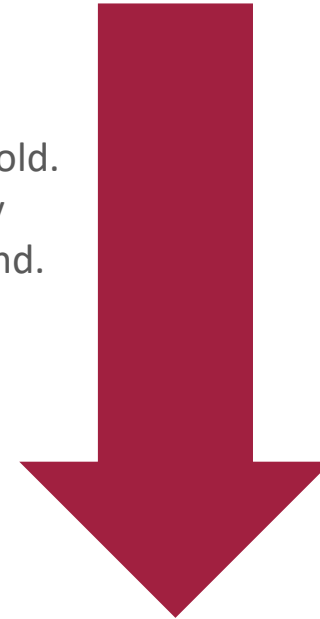
□ Challenges to Capturing Alpha

Excess Return



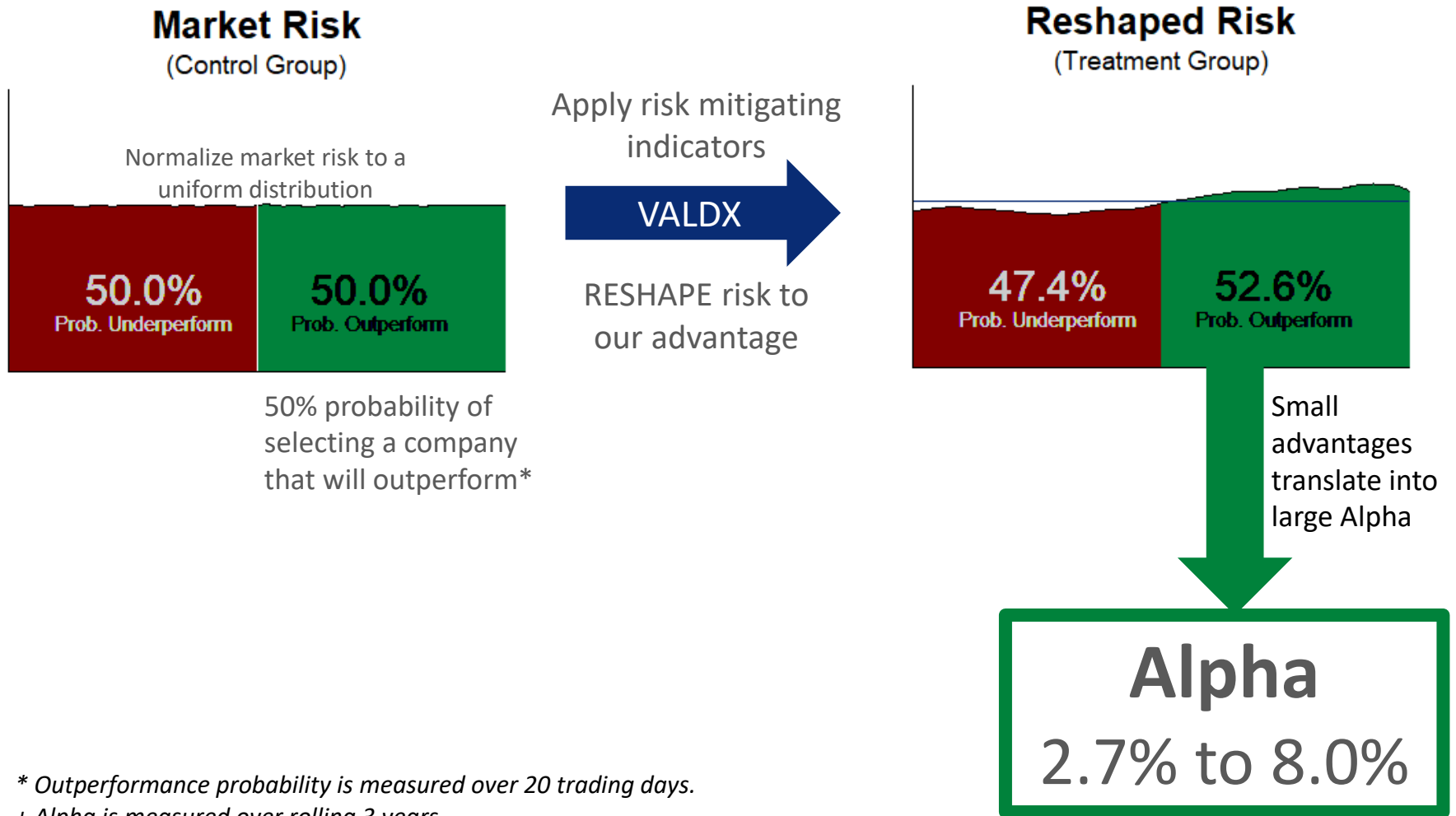
Systematic excess return is small and hard to find.

Risk



Once found, it is hard to hold. Risk can quickly cancel any excess return signal you find.

□ Reshaping Risk to Capture Alpha



* Outperformance probability is measured over 20 trading days.

+ Alpha is measured over rolling 3 years.

Solution

We take a Risk-First Approach

1. Understand the drivers of risk
2. RESHAPE risk to our advantage
3. Harvest excess return opportunities

Outline

Predictive Risk Indicators



Understand Risk Distribution



Identify Excess Return Opportunities



Build Risk-Managed Alpha Strategies

Predictive Risk Indicators of Companies

Daily Risk Indicators

included in the VALDX data feed



Price Sentiment Indicators

Represents the amount of a stock's price driven by sentiment. Can be positive or negative number.



Fundamental Indicators

The fundamental score is an automated assessment of a company's profitability, solvency, and management efficiency.

Understand Risk Distribution of Indicators

□ Research Question

Does an indicator predict the risk and relative performance of companies over the next 20 trading days?

- Control Group = All S&P 500 companies
- Treatment Group = Subset of S&P 500 using indicator(s)

Experiment Design

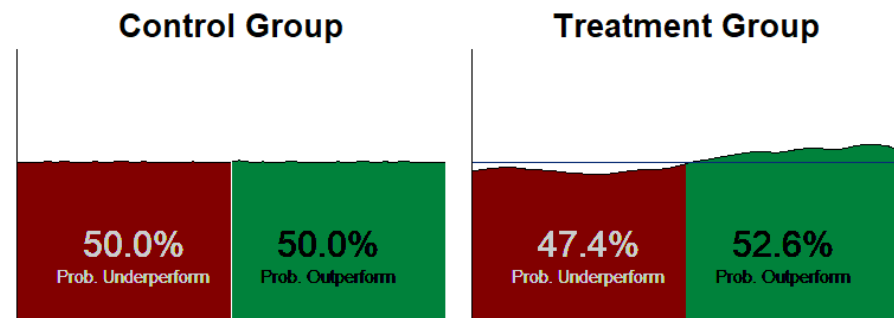
- For each day a company is traded, measure the future return (20 trading days later)
- Rank those returns and represent as a percentile ranking (0 to 1)
- Plot those percentile ranks on histogram

Evaluation Criteria

Control Group is, by design, a uniform risk distribution with a 50% probability of outperforming.

Does risk deviate from uniform distribution?

Is there deviation from 50% probability of outperforming?



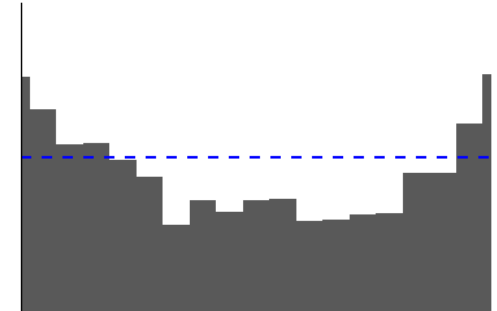
For the purposes of this presentation, “Risk” is the shape of the distribution of the treatment group returns relative to the control group

Benchmark (Control Group)



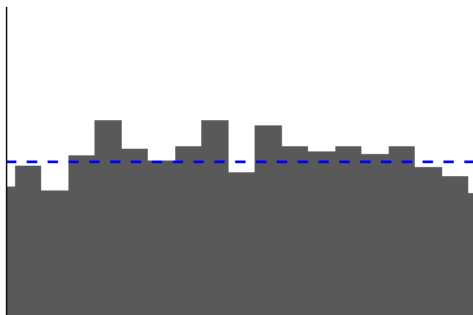
Benchmark Risk and Return. Equal probability of getting a low, median, or high return.

Higher Tail Risk



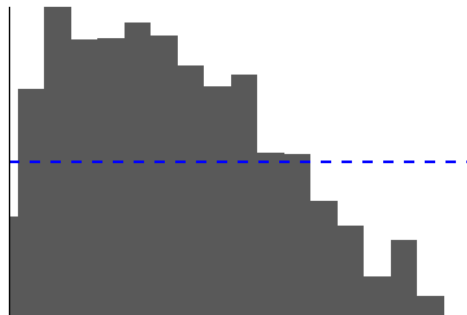
Higher probability of getting a low or high return; lower probability of getting median return.

Lower Tail Risk



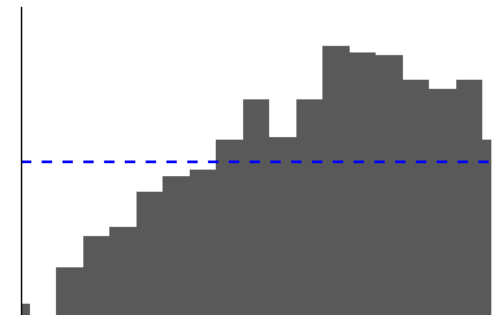
Lower probability of getting a low or high return; higher probability of getting median return.

Downside Risk



Higher probability of getting a low return; lower probability of getting high return.

Upside Risk



Higher probability of getting a high return; lower probability of getting low return.

Example

Identifying Excess Return

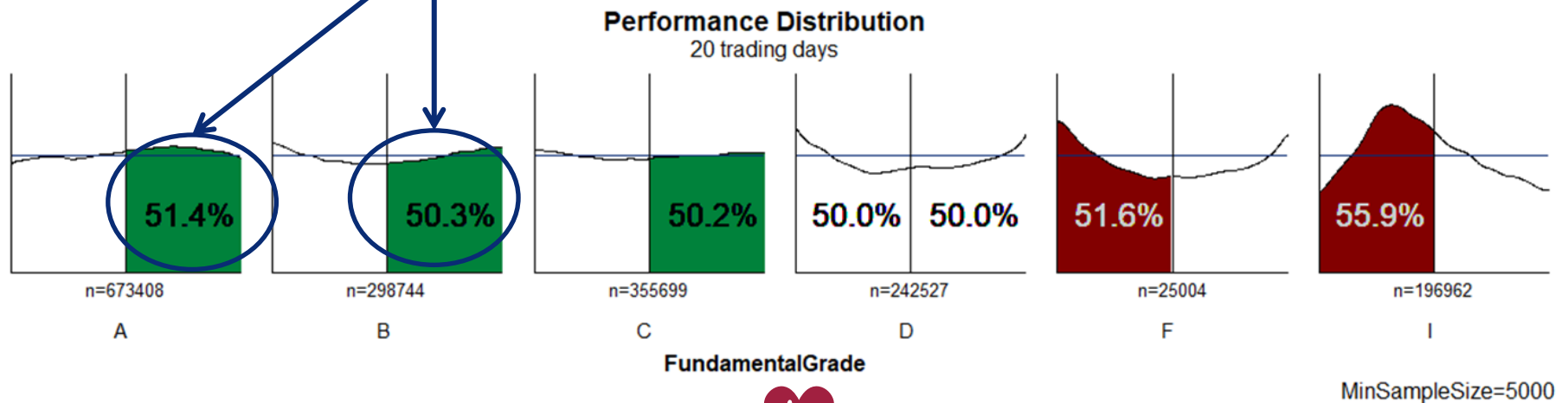
Opportunities within a Classification

Building a stock screener

Choose Fundamental Screener to maximize win rate

Since fundamental grade is categorical, let's start by seeing where the best win rates can be found. See prior slide for definition of win rate.

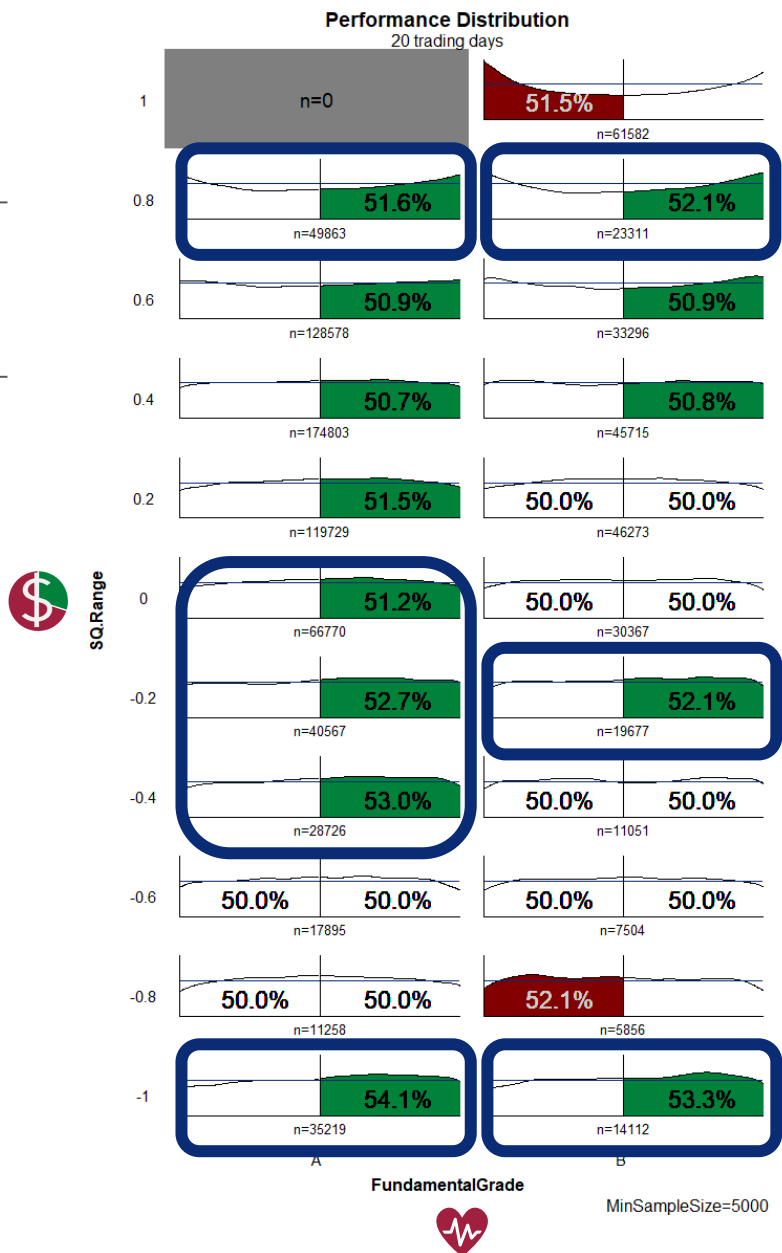
Companies graded as A or B tend to outperform other grades.



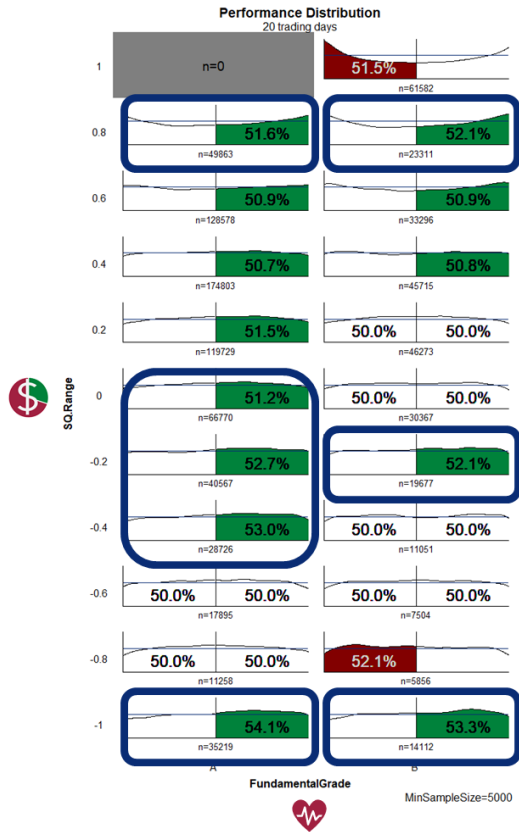
Choose Sentiment Screener to maximize win rate

Now combine fundamental grades with the price sentiment quotient (SQ). Choose some ranges for SQ to complete your screener.

Select some ranges based on win rate

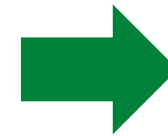
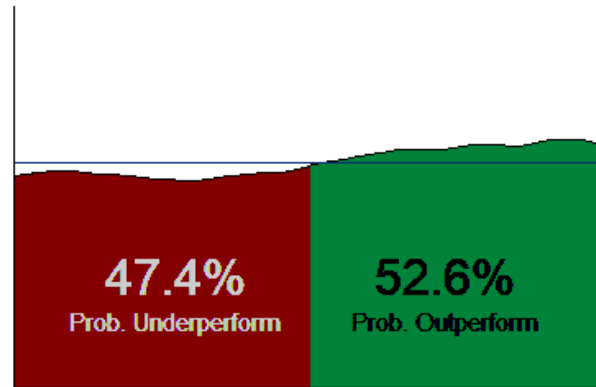


Apply Example Screener Rules



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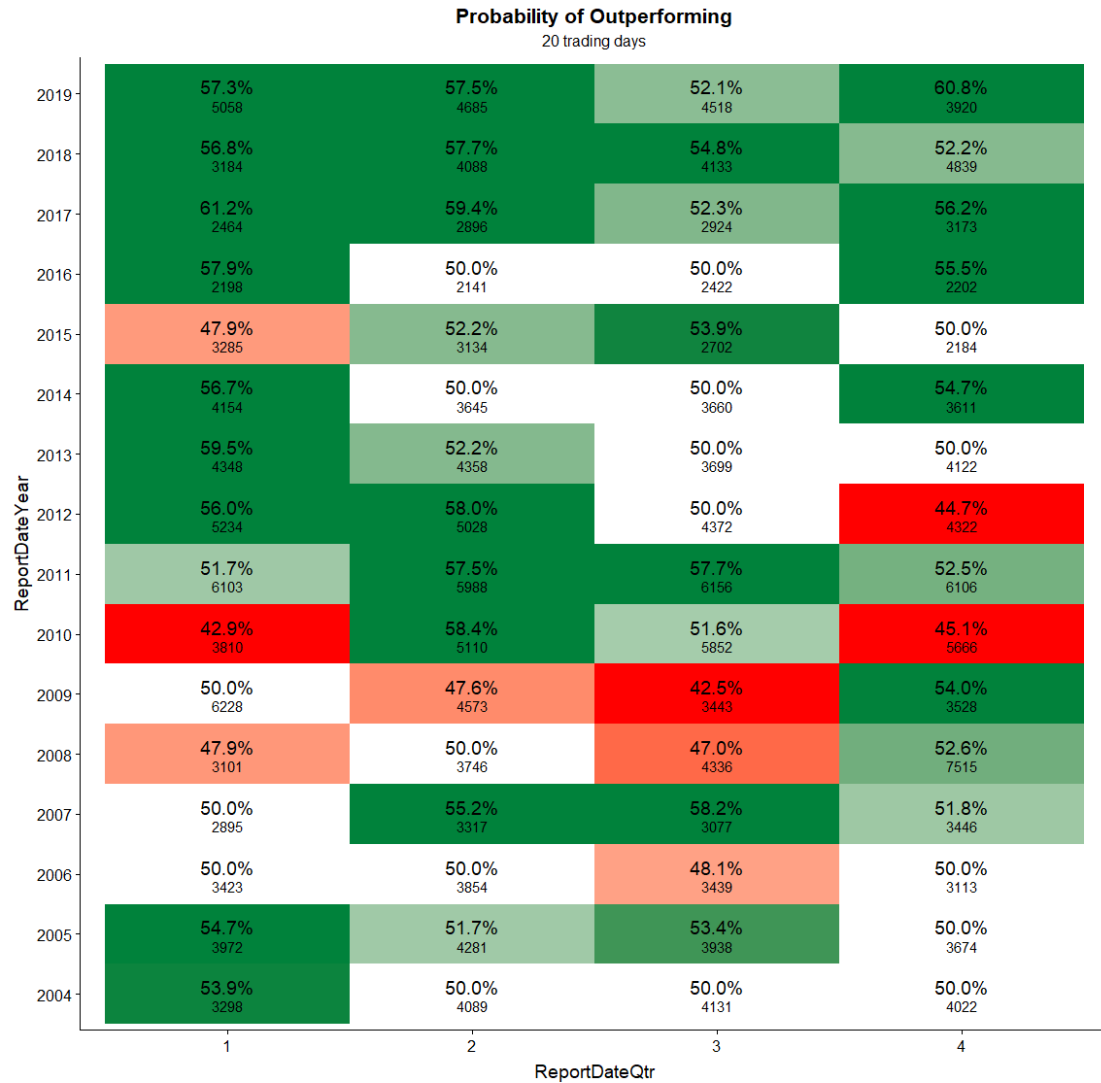
Screener.2



4.9%
Alpha

See prior slide for definition of win rate, as well as backtested Alpha.

Quarterly Outperformance Probabilities



MinSampleSize=500

Example

Building a Risk-Managed Alpha Strategy

□ Rules for Example Screener

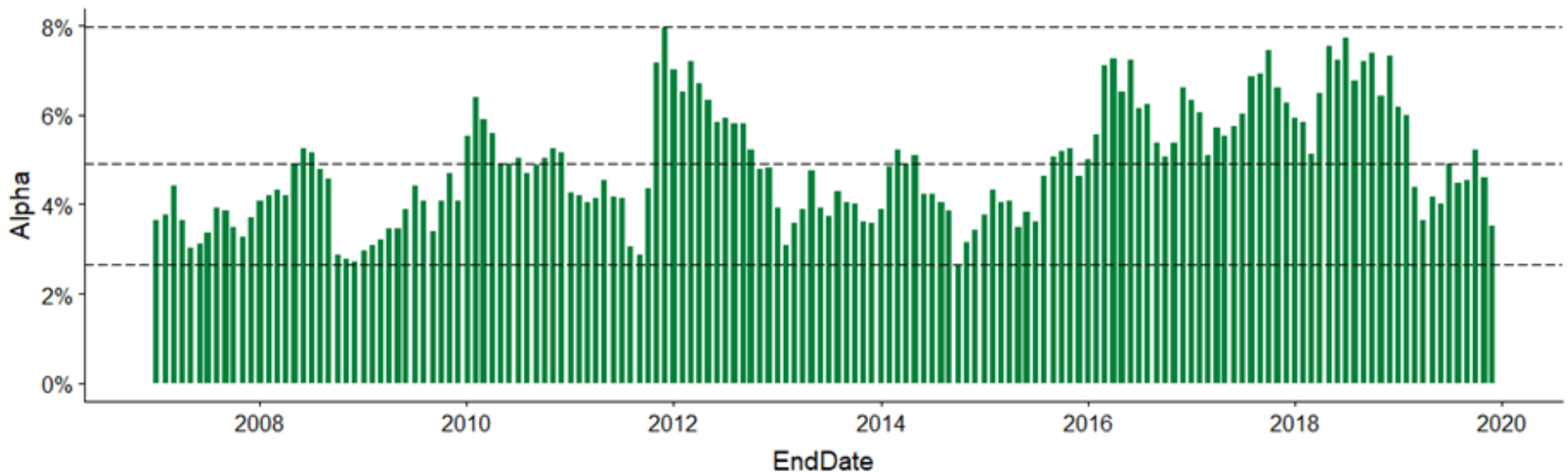
Designed to illustrate the predictive power and alpha value of VALDX

- Only hold stocks that are components of the S&P 500 and for which all the following are true:
 - Fundamental Grade is “A” or “B”
 - SQ is within ranges defined (prior slides)
- Equal weight holdings
- If a company no longer meets above criteria, sell it
- No trading costs included
- No management fees included

☐ 3 Year Rolling Alpha (2004 to 2019)

Screener.2

**4.9% Average Annualized Alpha
over 145 Rolling 3-Year Periods**



Performance summary was generated by the Valspresso simulation system. The Valspresso simulation utilizes a hypothetical reconstruction of how a specific account might have performed if the advisor was managing the account using the firm's strategy. Returns do not represent actual trading of a client's assets but were achieved by applying a model retroactively with the benefit of hindsight. Simulated returns have inherent limitations, especially the fact that they do not represent actual trading and may not show the impact that material economic conditions might have had on the advisor's decision-making. Simulated returns do not demonstrate the advisor's skill and are not the performance returns achieved by any specific client.

Build your own Stock Selection Screener

1. Define your requirements

Market Cap, Sectors, Risk, Num of Holdings, etc.

2. Discover predictive power of indicators

Explore the different indicators and their predictive capability.

3. Experiment with screener breakpoints

Choose the optimal breakpoints to achieve your objectives.

4. Add Alpha screener to your strategy

Layer your own strategy on top of our strong Alpha foundation.

□ Summary

- Systematic Excess Return is hard to find and capture because risk can quickly destroy any temporary advantage
- Valspresso's Risk Indicators provide predictable risk performance under different market conditions
- Indicators make it easy to build your own persistent alpha-generating strategies
- Great for active equity model portfolios, index funds, or ETFs

Available on

Open:FACTSET™

Next Steps

Learn more at valspresso.com

Meet with the Valspresso team

Get your free trial subscription today!

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