

Sentiment analysis

Using sentix indicators!



IFTA Webinar March 2015

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Sentiment analysis – what is that?

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sentix Global Investor Survey

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Where to go from here: your next steps

Sentiment analysis

Why is it useful?



Don't be the „captain of the Titanic“!

1

Analysis of **investor sentiment & behavior**
Sentiment fluctuates between „greed & fear“

2

(A mostly not systematically used) tool of technical analysts to employ the idea of „**contrary opinion**“

3

Part of a behavioral finance-based research approach to **better explain** how financial markets work

Sentiment analysis

What do we want to achieve?

1

Improvement in timing

2

Spotting opportunities „against the crowd“

3

Risk reduction by avoiding the pitfalls of „emotional trading“

Sentiment analysis using sentix indicators

How can we measure sentiment?

Emotions are not observable directly

- We only can measure how emotions have us affected

We can use some of the „well known“ sentiment indicators

- Volatility gauges (e.g. VIX)
- Trade-based indicators (e.g. Put Call-Ratio)
- Investor positioning data (e.g. Commitment of Traders report)
- Survey-based indicators (e.g. AAI survey)

Let's have a look on these indicators ...

Sentiment analysis VIX – not sentiment at all!



„VIX“ Volatility Index

Based on option prices, it **reflects the demand for „protection“**

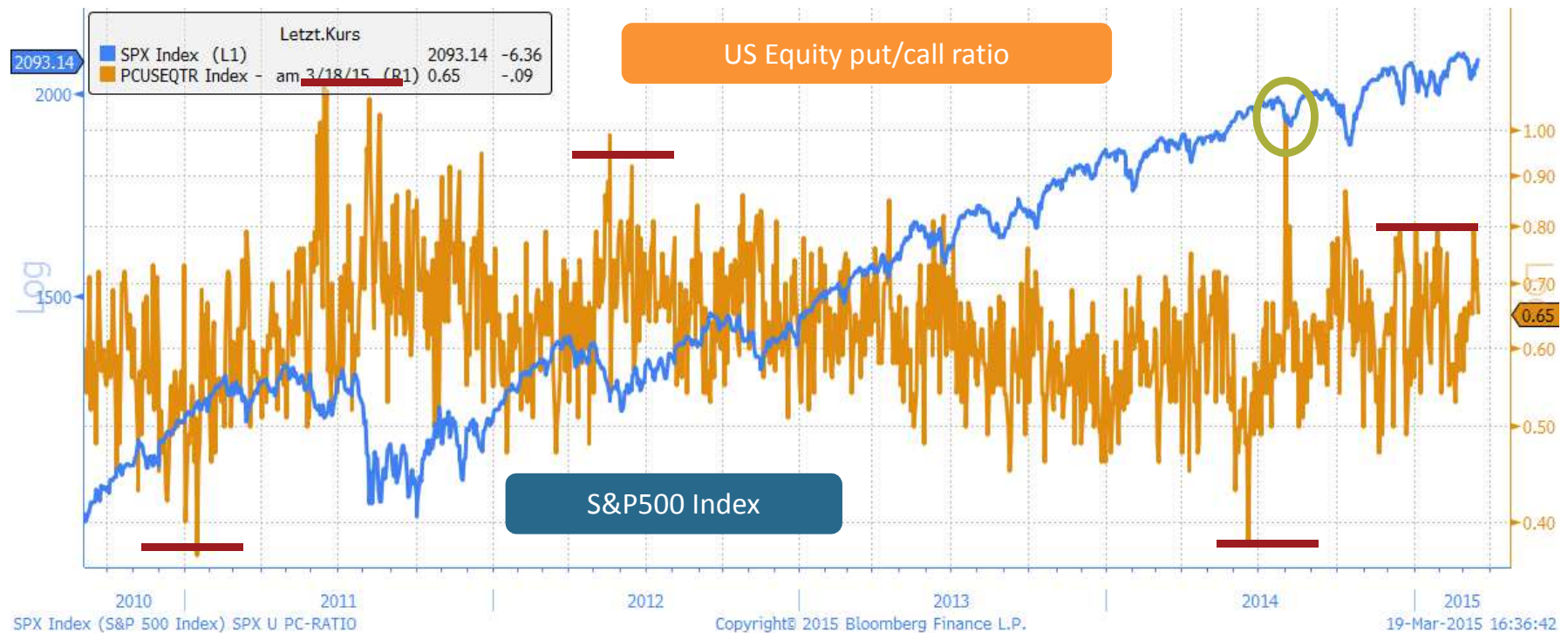
Hard to find turning points as there are no „stable boundaries“

Useful at bottoms but **less effective** in bull market trends!

This is not a sentiment indicator!

Sentiment analysis

Put/Call ratio – to volatile, sometimes distorted



Put/Call ratio

Reflects the trading volume in call and put options. **Assumes, that pessimists trade more puts**

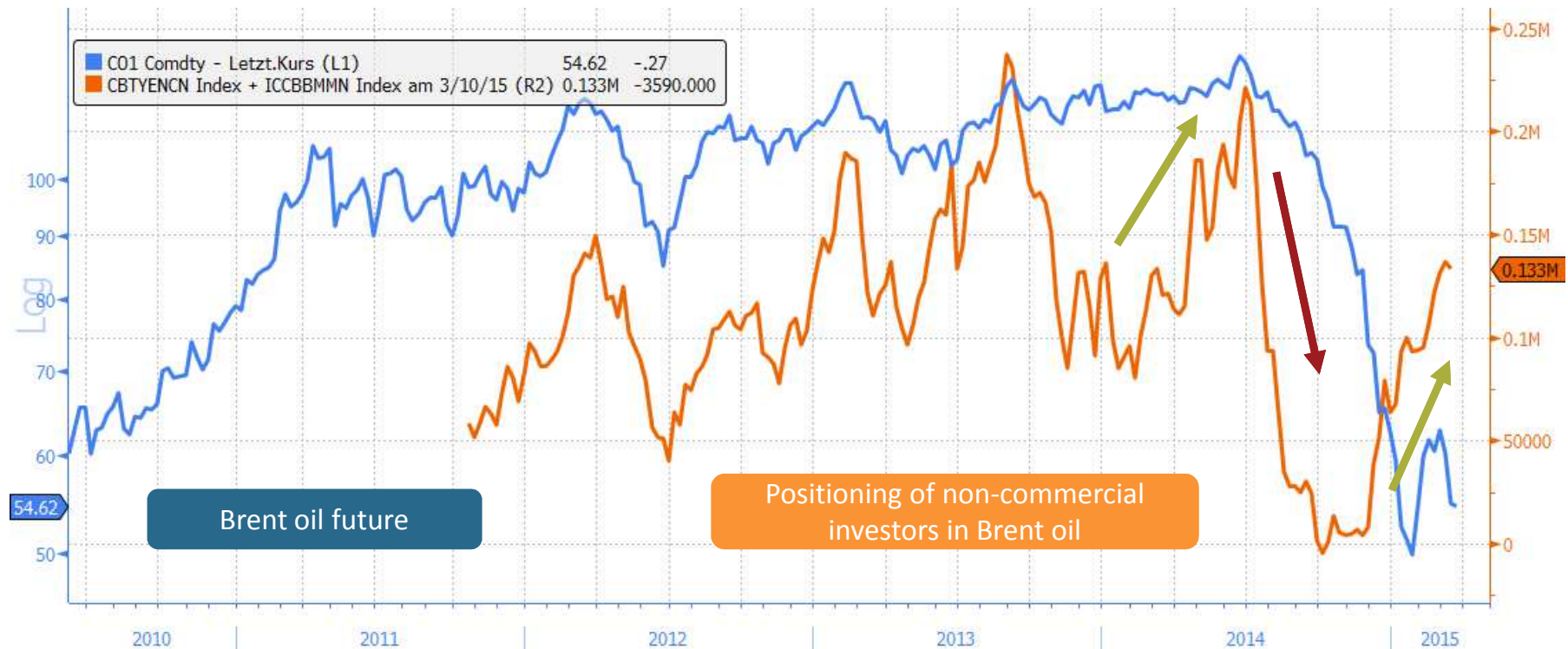
Very volatile indicator with no clear boundaries. **To much noise.**

In some markets, like Germany, the P/C ratio is **completely distorted** by „structuring activities“

Biggest disadvantage: not available for all relevant markets

Sentiment analysis

Positioning data (COT) is useful, but is not sentiment!



Investor positioning

In some markets (e.g. FX and commodities), COT data is **helpful**. In equity markets not so much!

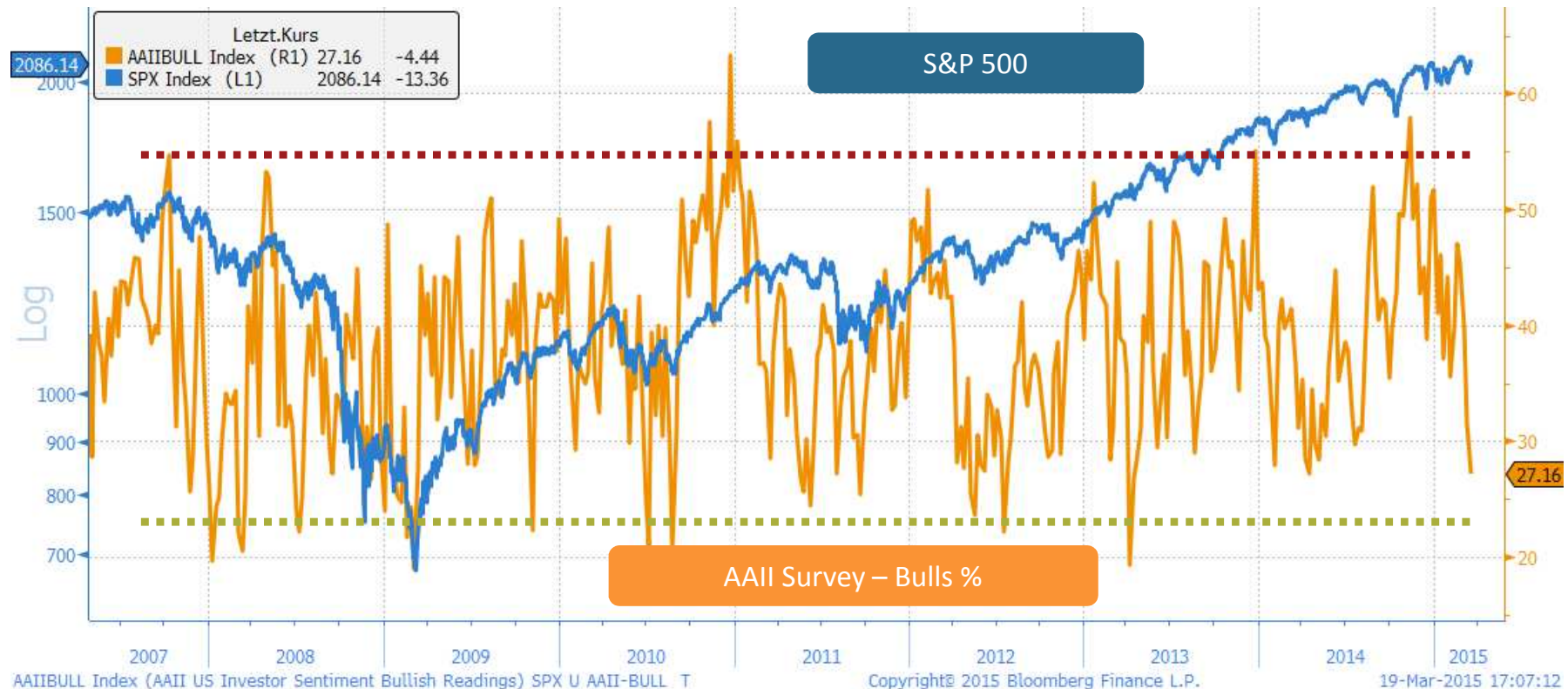
Positioning is behaving coincidentally with markets trends, **sometimes it is leading**.

Absolute numbers without a clear meaning. **Might help**, if you could anticipate it!

It shows, what investors are doing but not what they feel – **but it is not sentiment!**

Sentiment analysis

Survey based indicators best reflect sentiment



Survey based indicators

Sentiment is best reflected through a standardized investor poll. Typically, it gives you standardized measure with clear boundaries

But: **Transparency is crucial!** Who is surveyed?! Population changes?! Consistency?!

Quality of a sentiment indicator is reflected in **cyclicality, correlation with price**, extreme reading at extreme times in the markets!

To sum up – Do we have the right tools?

„Popular“ indicators **do not reflect sentiment**

- Lack of typical „sentiment patterns“ -> reflecting other information!
- Sometimes they might seem useful but ...
 - they are noisy
 - „action points“ are only visible in hindsight

Survey-based indicators are better, but ...

- Only available for selective markets
- Not comparable between markets (intermarket research!)
- Lack of transparency
- Do they cover a relevant investor base?

⇒ That's why we invented sentix!

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Where to go from here: your next steps

About us

Facts and figures



Manfred Hübner, CEFA

Managing Director
Member of STAF

Founder of sentix in 2001



Leading sentiment survey in Europe

5.000 registered investors (> 1.000 institutionals)

> 1.000 respondents each week

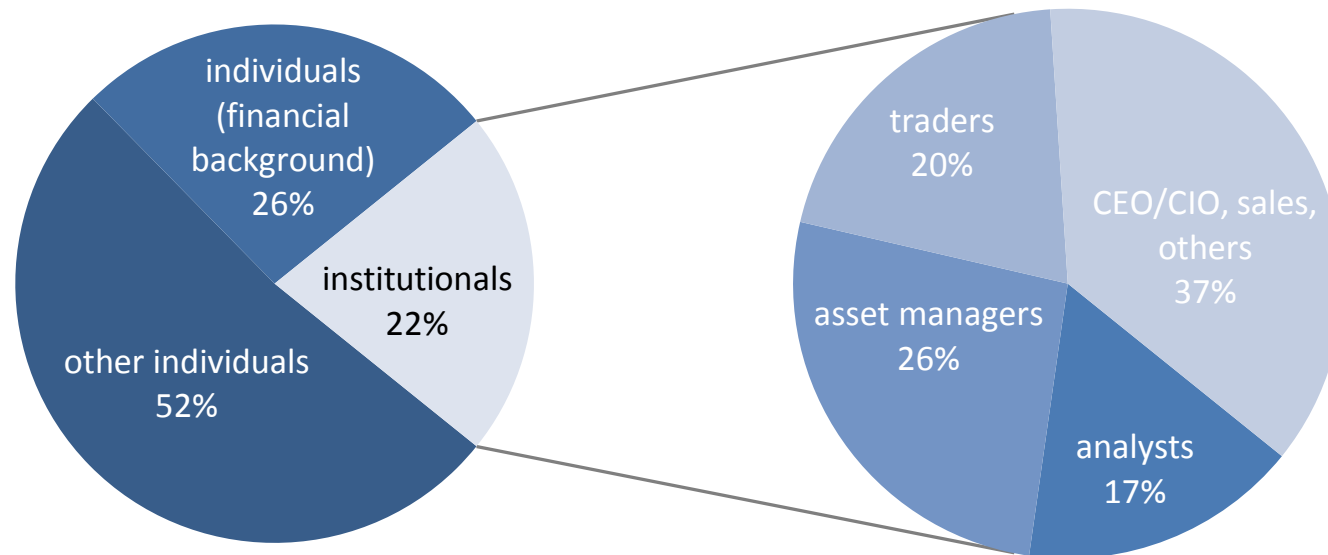
> 400 different indicators



sentix Global Investor Survey

An objective source of investors' opinion

5,000 investors from over 20 countries are participating already

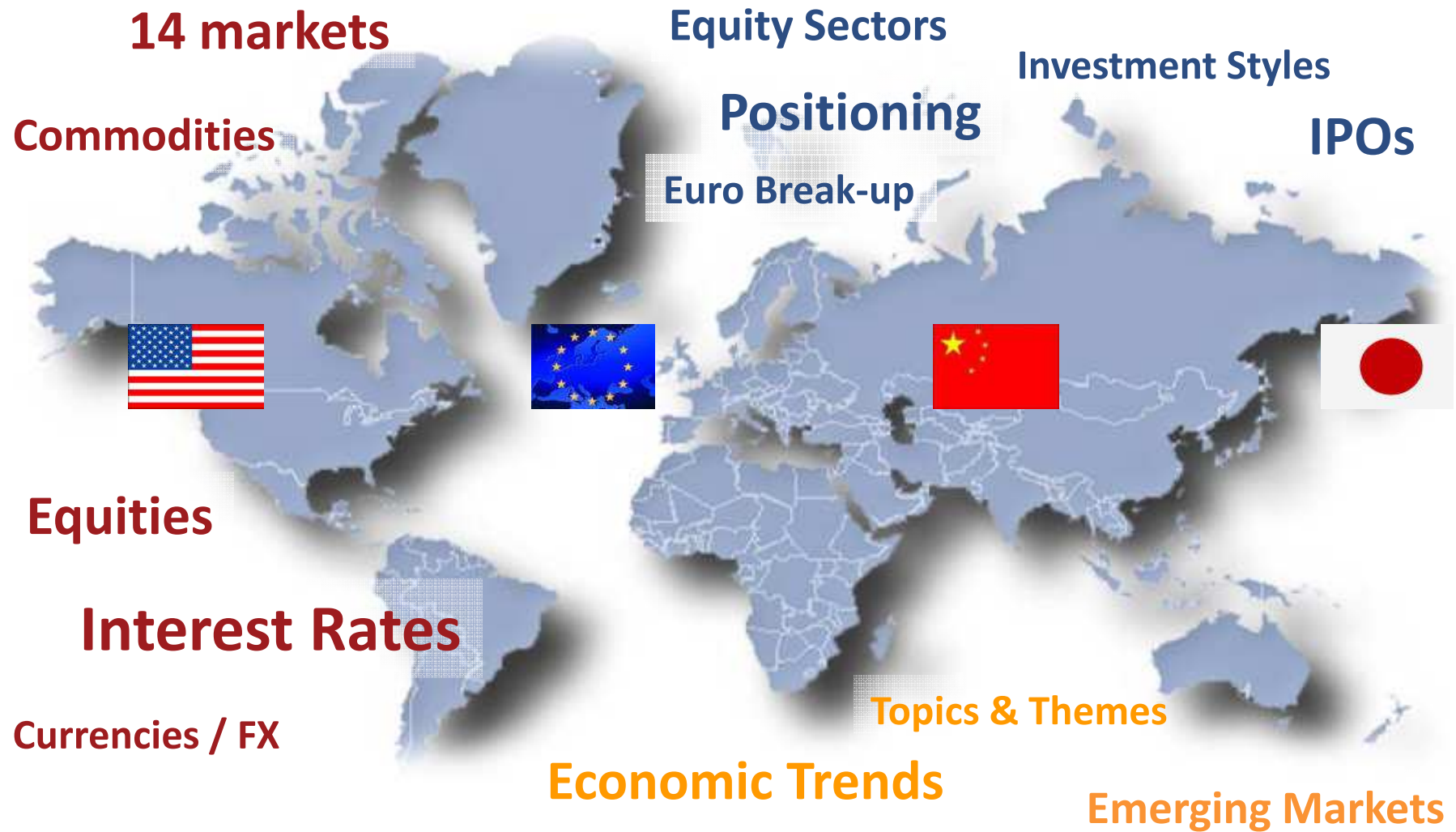


Institutional investors represent assets under management of more than € 500 bn!

Source: sentix

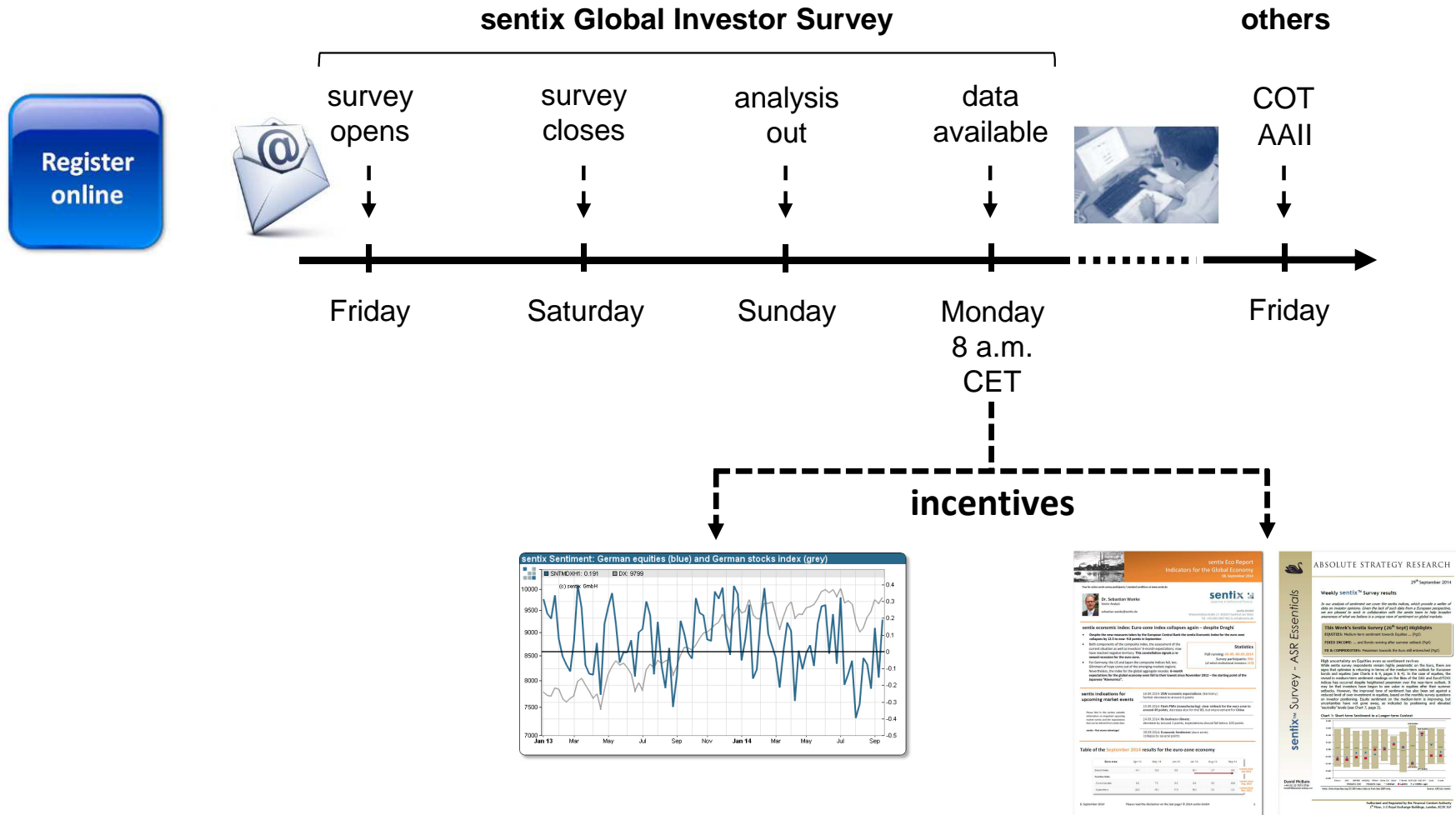
sentix Global Investor Survey

One survey for all your needs!



sentix Global Investor Survey

How – and why – it works



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About us

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Profiting from our data

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Where to go from here: your next steps

sentix Profiting from our data

Three places where to find alpha

Wisdom of crowds

- Heterogenous group of independent investors knows more than a single expert
- Rational behavior
- **sentix Strategic Bias**
- **sentix Economic Indices**
- **sentix Investment Theme Index**
- **sentix Euro Break-up Index**

Madness of the crowd

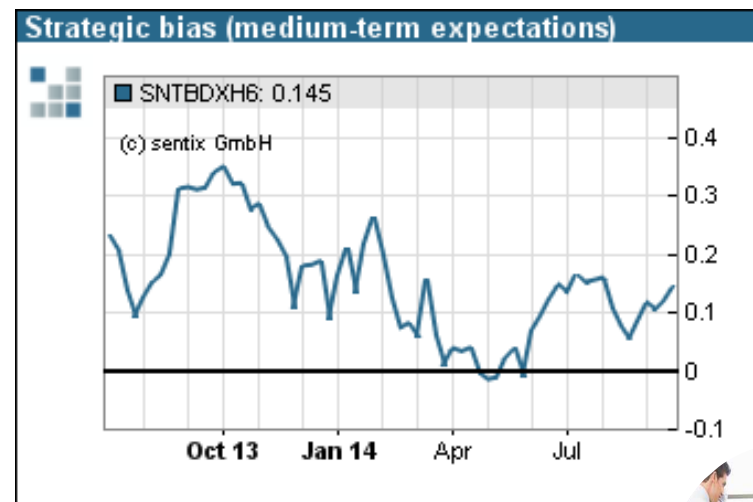
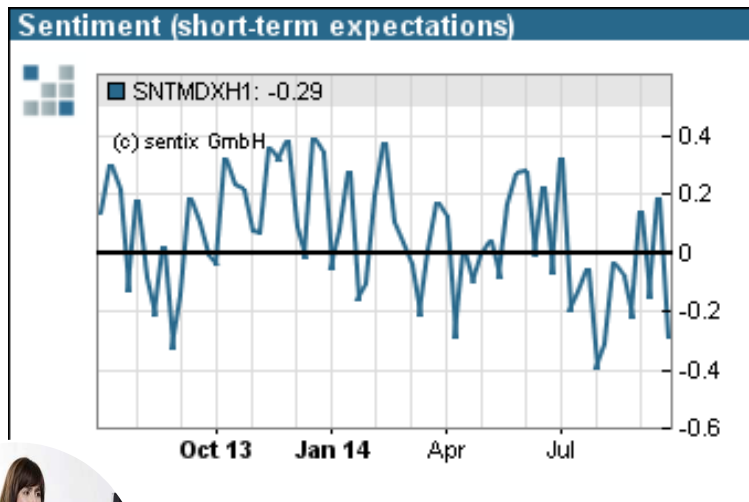
- People's feelings can be homogenous and feelings of greed and fear can dominate rational thinking
- Emotional behavior
- **sentix Sentiment**
- **sentix Time Differential index**

„Black swans“ in positioning

- People show pro-cyclical behavior
- Extremes in positioning can lead to „spurious black swans“
- Herding behavior
- **sentix Investor Positioning**
- **sentix Over-confidence index**

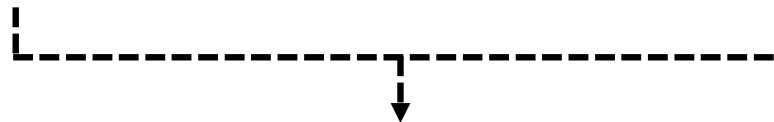
Profiting from our data

sentix Sentiment and Strategic Bias for German equities



short-term „sentiment“

medium-term „bias“

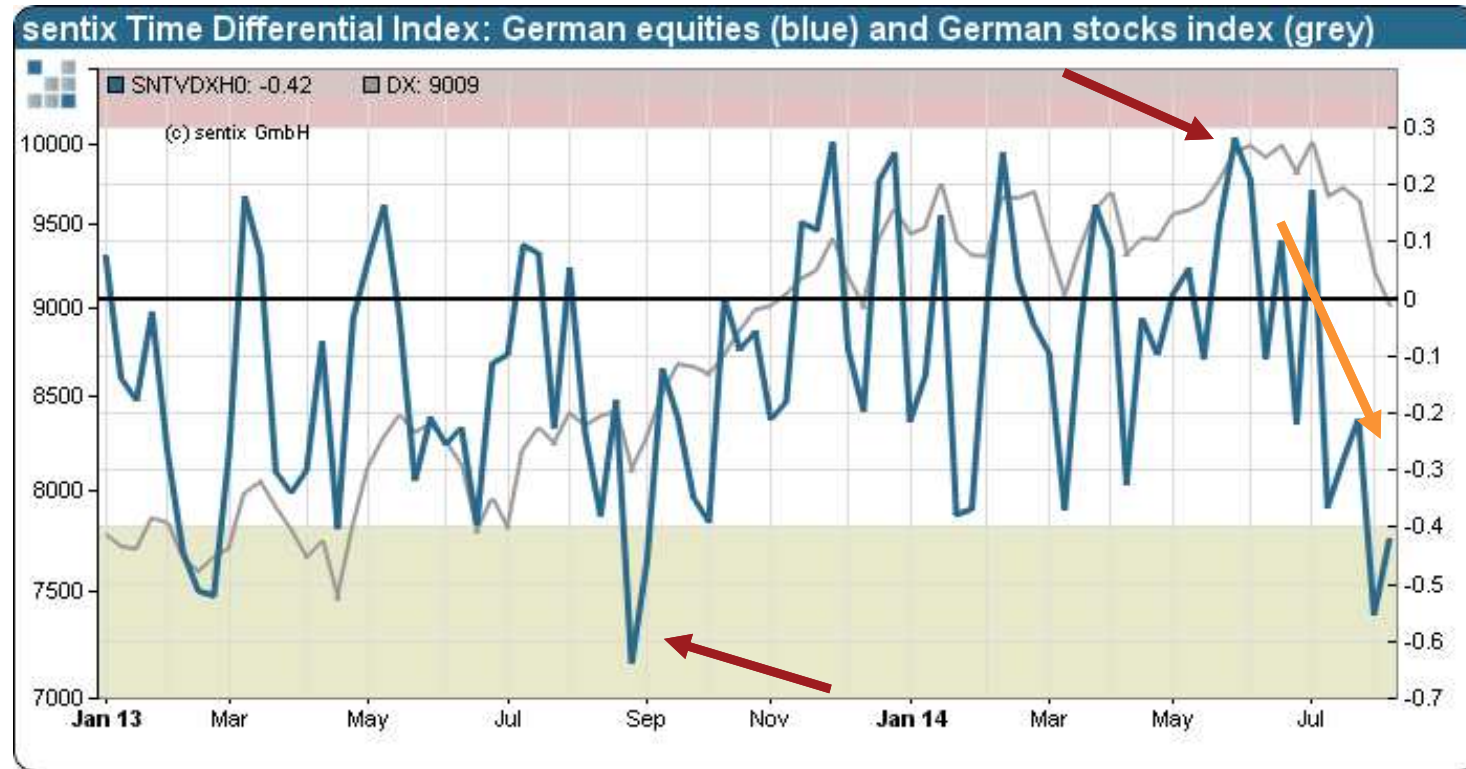


Different „sentiment“ in the
same brain...

What does that mean?



Profiting from our data sentix Time Differential Index for German equities



sentix Time Differential Index

Is the **spread between Sentiment and Strategic Bias**. Extreme values represent contrarian investment opportunities

If the indicator displays a negative extreme, there is fear or panic in the market while there is still a perception of value for the asset

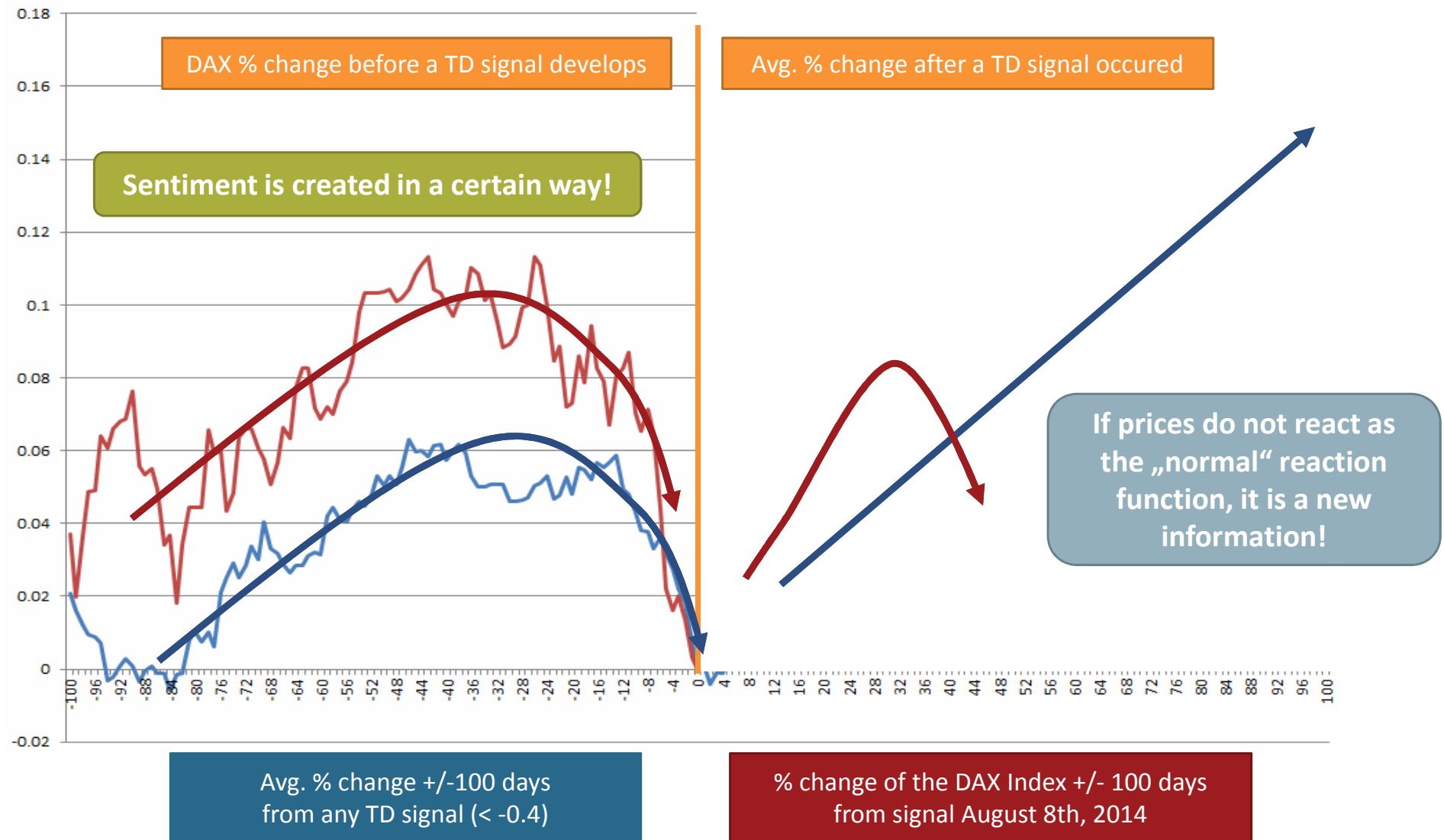
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sentix Time Differential, German equities: some statistics

		number of obeservations	average returns after n weeks (first line) and percentage of correct signals (second line)								
			1	2	3	4	6	8	10	12	16
index >	0,4	3	-1,1%	-0,7%	-1,2%	-1,1%	-1,8%	1,0%	3,8%	1,7%	1,7%
			67%	33%	67%	67%	33%	33%	0%	0%	33%
	0,3	25	-0,7%	-0,5%	-0,9%	-1,4%	-1,2%	-2,5%	-0,2%	-0,1%	0,2%
			60%	48%	48%	52%	52%	68%	64%	40%	48%
	0,2	89	-0,1%	-0,3%	-0,2%	-0,5%	-0,5%	-0,7%	-1,1%	-0,6%	-0,1%
			47%	45%	40%	42%	46%	48%	51%	42%	40%
0,1	184	0,0%	-0,1%	-0,3%	-0,4%	-0,3%	-0,2%	-0,4%	-0,3%	0,6%	
		43%	39%	39%	41%	44%	42%	43%	37%	39%	
index <	-0,1	295	0,4%	0,5%	0,8%	0,9%	1,5%	1,8%	2,2%	2,3%	2,1%
			56%	59%	63%	63%	67%	69%	71%	73%	71%
	-0,2	193	0,1%	0,3%	0,6%	0,9%	1,7%	2,5%	2,8%	3,2%	3,4%
			54%	57%	62%	64%	70%	74%	74%	75%	74%
	-0,3	116	0,5%	0,9%	1,7%	2,1%	2,7%	3,4%	4,1%	4,9%	5,3%
			59%	58%	67%	72%	73%	78%	78%	82%	81%
	-0,4	47	0,8%	1,9%	2,4%	2,8%	3,5%	4,2%	5,1%	5,9%	6,8%
			66%	66%	77%	77%	85%	81%	81%	87%	87%
	-0,5	16	0,5%	2,0%	2,6%	1,9%	3,6%	4,9%	7,1%	8,7%	10,4%
			75%	69%	75%	75%	81%	81%	88%	94%	100%

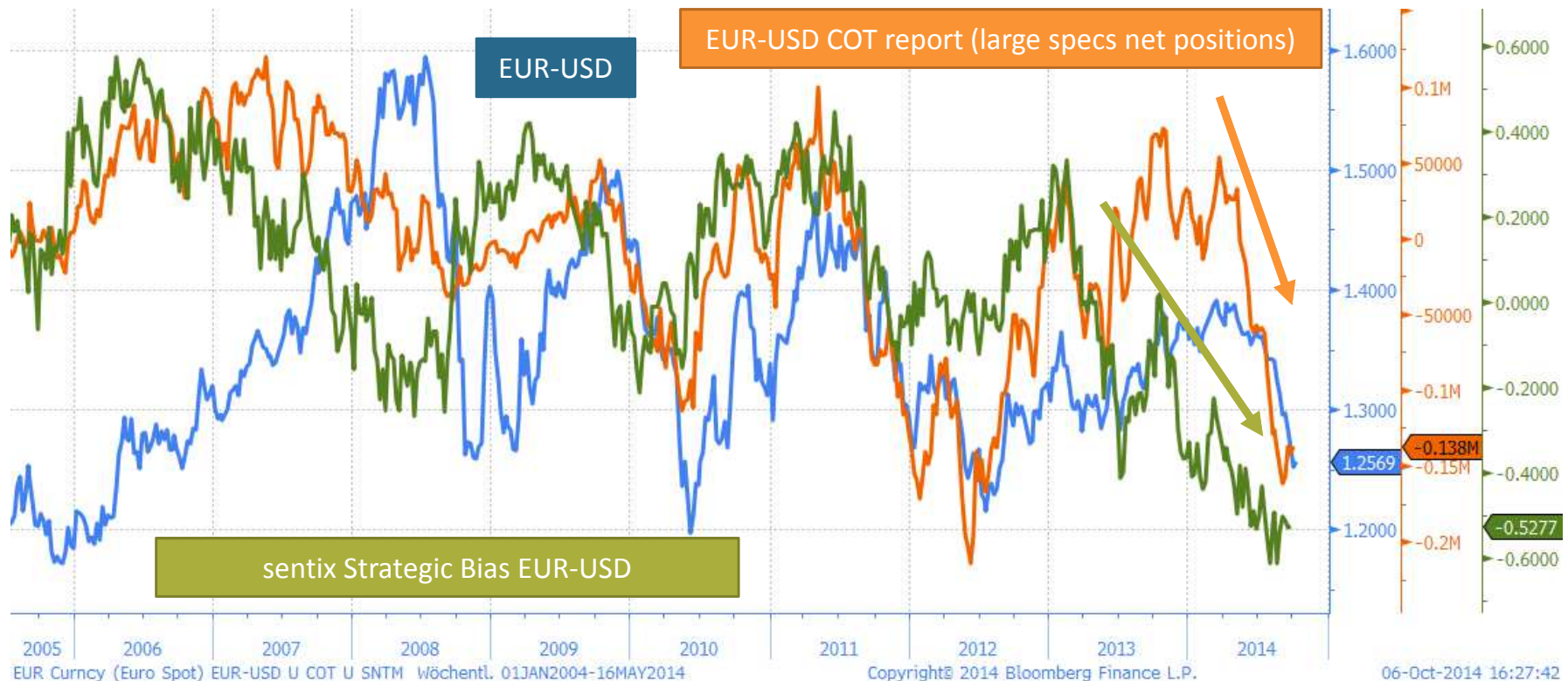
Profiting from our data

sentix Time Differential: return path after signal (DAX, < -0.4)



Profiting from our data

sentix Strategic Bias leads investor positioning



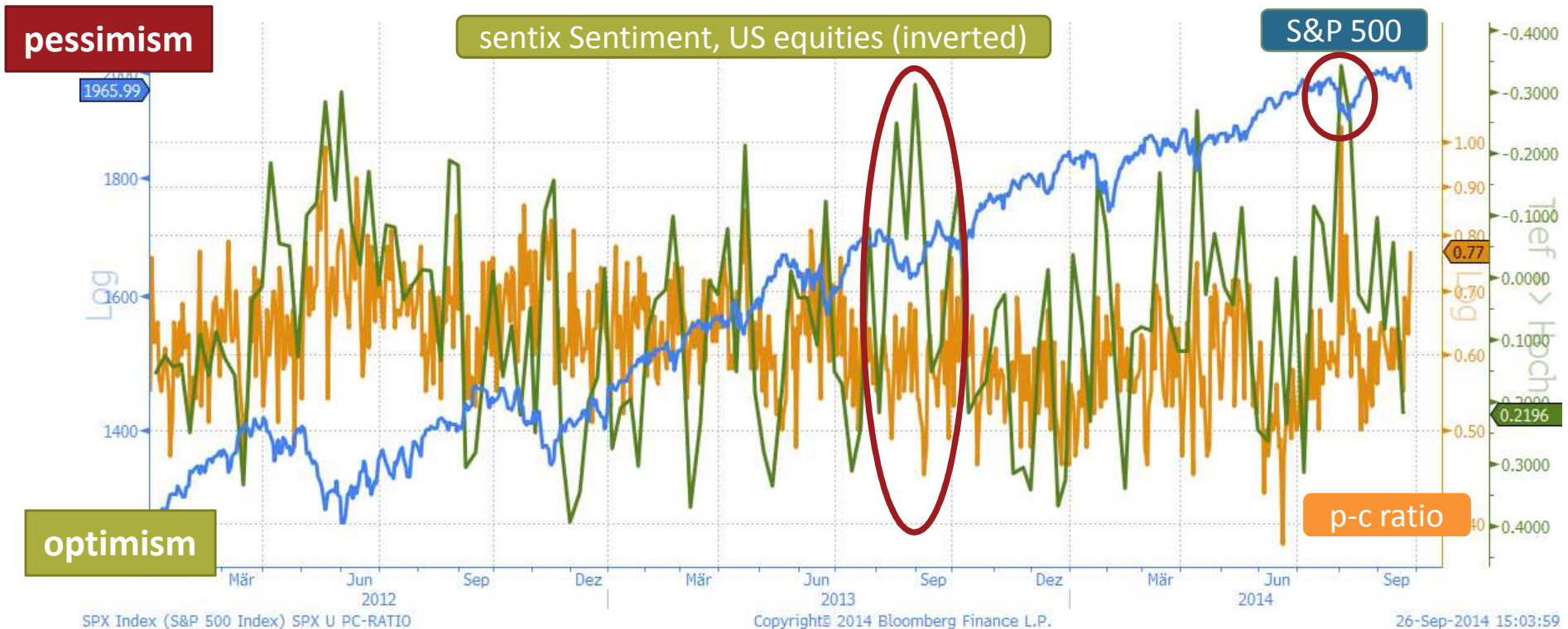
sentix
Strategic
Bias

The Strategic Bias reflects the **perception of value** of an asset by investors.

First we see the development of a bias, then we see portfolio adjustments. And finally, prices react.

Profiting from our data

Advantages of sentix sentiment over other measures



Better than
p/c ratios

Less noise, clear upper and lower boundaries and clearer signals!

Get the signals, when you should! At least, a combination will improve your results

19 European equity sector sentiment indicators



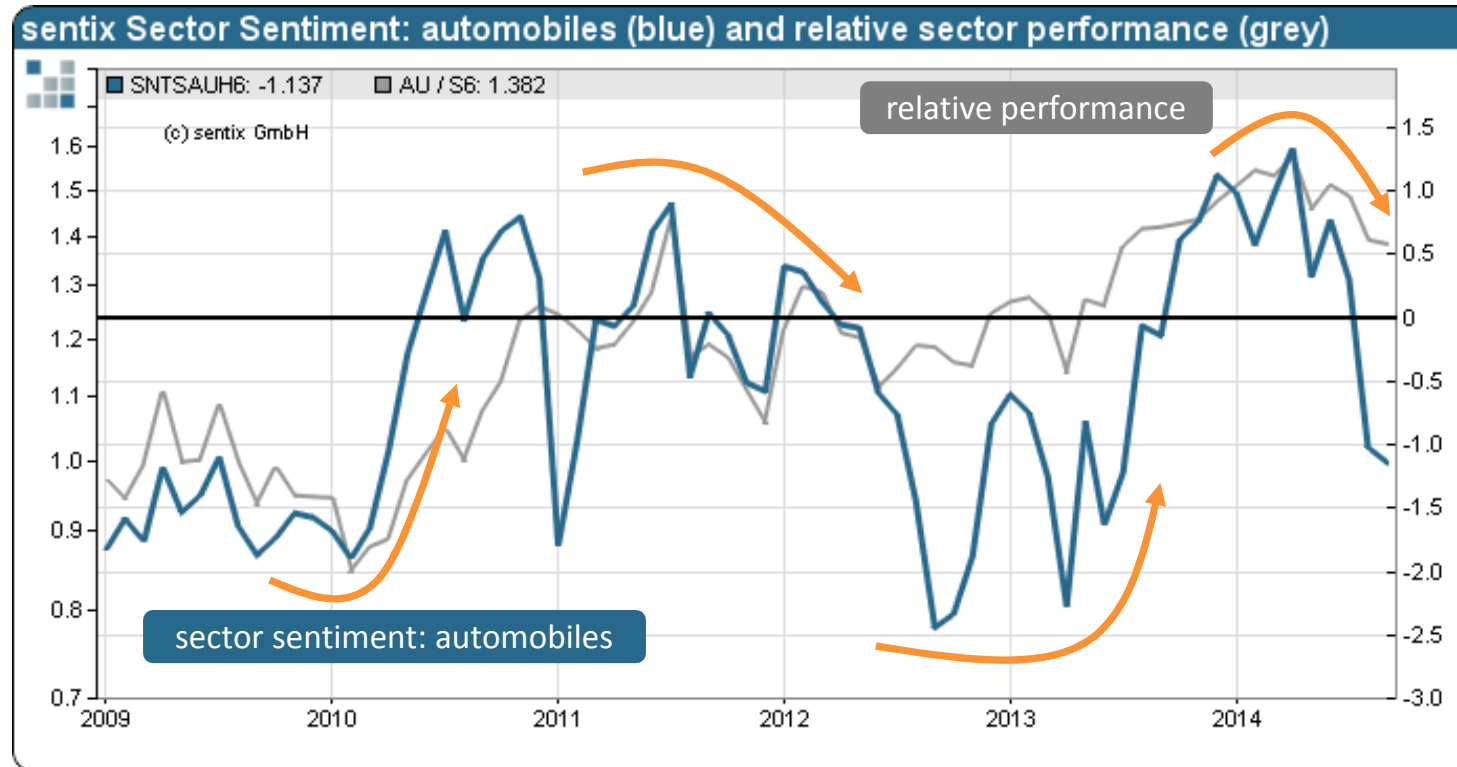
sentix
Sector
sentiment

Covers the medium-term expectations of investors for **19 European equity sectors**.

Sentiment values are published as normalized Z-scores that allow an **easy comparison of the indices between the sectors**.

Profiting from our data

sentix Sector Sentiment: gauging relative performances



Sector sentiment example

In this indicator we do not differentiate between sentiment and strategic bias

Two signals: (1) **extreme readings** and (2) **leading function** for a trend inbetween

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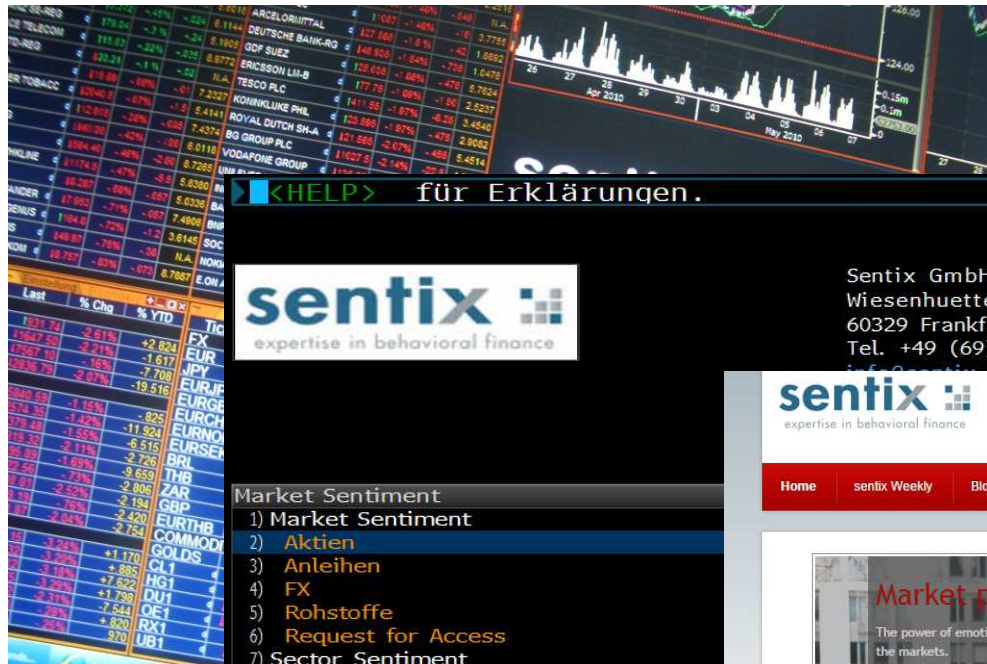
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Where to go from here: your next steps

sentix online Resources and backgrounds



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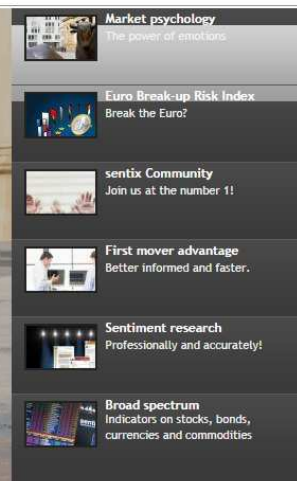
Market Sentiment

- 1) Market Sentiment
- 2) Aktien
- 3) Anleihen
- 4) FX
- 5) Rohstoffe
- 6) Request for Access
- 7) Sector Sentiment
- 8) Investors Preferences and Behavior
- 9) Market Sentiment (Delayed)
- 10) Economic Indices (SNTE)
- 11) Sentiment on Asset Classes (Public)
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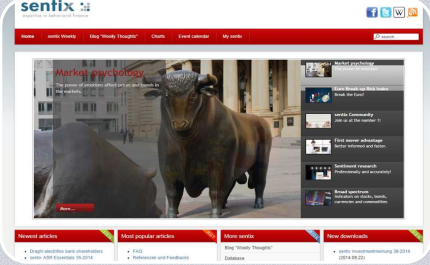
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- Database

New downloads

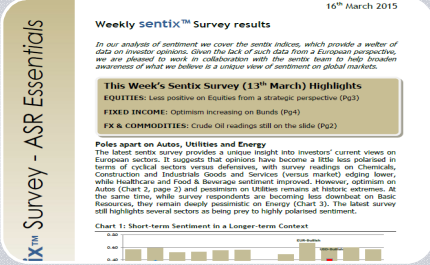
- sentix Investmentmeinung 38-2014 (2014.09.22)

sentix online

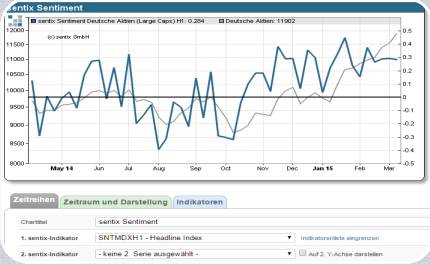
What you get for your survey participation



Free registration
Weekly survey
Participation
takes about 5
minutes of your
time!



Free weekly
sentiment report
in English
Compendium
available
(German)



Free access to the
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To sum up The „key“ to better performance



... if you are looking for **high quality data** on investor behavior (sentiment data)

... if you want to **benefit from wisdom and madness of the crowds** and trade new trends early

... if you want to **spot risks** early that are caused by one-sided expectations and/ or positioning

...if you want to **move away from mainstream**

Thank you!

Questions?

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