

News Analytics

Applied to Trading, Fund Management and Risk Control

1 February 2010,

MWB, Canada Square, Canary Wharf, London

www.optirisk-systems.com/events/carisma2010.asp

It is widely recognised news plays a key role in financial markets. Traders and other market participants digest news rapidly and update their asset positions accordingly. The sources and volumes of news continue to grow and there is alpha generating potential in those technologies that aid intelligent and efficient processing of news.

New technologies that allow traders and investment managers to automate or semi-automate news collection, extraction, aggregation and categorisation are emerging. Further a few niche analytics companies (RavenPack, Infonic) in partnership with established newswire providers (Dow Jones, Thomson Reuters) have developed commercial applications which process the textual input of news stories to look for trading and risk management signals.

Workshop Programme

09.15 - 09.30 Introduction

Session 1: Overview

09.30 - 10.00 If you had everything computationally, where would you put it, financially?
David Leinweber, UC Berkeley

Session 2: Technology and Applications (I)

10.00 - 11.00 Incorporating News Analytics into Quantitative Investment and Trading Strategies
Richard Brown, Thomson Reuters

11.00 - 11.30 Tea and Coffee

11.30 - 12.30 The Role of News in Financial Markets
Peter Hafez, Ravenpack

12.30 - 13.30 Lunch

13.30 - 14.30 Practical use of news in equity trading strategies
Mark Vreijling, Sem Lab

Session 3: Technology and Applications (II)

14.30 - 15.00 Short Term Risk from Long Term Models
Dan Di Bartolomeo, Northfield Information Services

15.00 - 15.30 Tea and Coffee

15.30 - 16.00 Equity portfolio risk estimation using market information and sentiment
Leela Mitra, OptiRisk systems

16.00 - 16.30 Exploiting News-flow Signals
Andy Moniz, Macquarie

16.30 - 17.00 US Markets: Earnings News Release – an inside look
Media Sentiment
Marian Munz, Media Sentiment

Presenters:

- ⇒ **Dan di Bartolomeo**
Northfield Information Services Inc
- ⇒ **Richard Brown**
Thomson Reuters
- ⇒ **Armando Gonzalez**
RavenPack S.L.
- ⇒ **Peter Hafez**
RavenPack S.L.
- ⇒ **David Leinweber**
UC Berkeley
- ⇒ **Leela Mitra**
OptiRisk Systems
- ⇒ **Marian Munz**
Media Sentiment, Inc.
- ⇒ **Mark Vreijling**
Director R&D SemLab



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Workshop Programme

If you had everything computationally, where would you put it, financially?

David Leinweber, UC Berkeley

Technology transforms the playing field of investment information. The middlemen are gone in trading, trading floors are vanishing. Reporters are role as information middlemen is redefined in the web era. If you had everything computationally, where would you put it, financially?

Incorporating News Analytics into Quantitative Investment and Trading Strategies

Richard Brown, Thomson Reuters

News is and always has been a major force in driving financial markets. Moreover, its impact is growing more immediate. Technology is driving the volume and rate of change of the news to the point where it has overwhelmed people's ability to exploit it effectively.

Technology, of course, also has an answer to this problem. It now is possible to incorporate news in the investment and trading process in ways that were not possible just a few years ago. Doing so enables traders to respond to the ever greater torrent of information faster, more consistently and with increased accuracy. It now is possible to work with breaking news in more dynamic ways that make it possible to better exploit market inefficiencies and more effectively manage event risk.

Machine readable news has often been categorized by use only by those most sophisticated firms operating secretive high frequency black box trading strategies. In this session, we will explore some practical uses for machine readable news across all trading frequencies and short to mid-term investment horizons.

The Role of News in Financial Markets

Peter Hafez, Ravenpack

In search for alpha, quantitative analysts are continuously looking to identify new data sources to maintain their edge in the alpha-generation process. The availability of news sentiment data provides a unique opportunity to generate alpha in a space, which has not yet been over-crowded. The workshop will provide an overview of how news analytics may be implemented into ones trading or investment environment considering aspects such as seasonality and sentiment bias, and the impact that such may have in formulating and constructing triggering events, quant factors and sentiment indices. The presentation will be supported by a number of empirical studies covering both high frequency triggering events as well as low frequency sector sentiment rotation strategies.

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Workshop Programme (cont.)

Practical use of news in equity trading strategies

Mark Vreijling, Sem Lab

Current technologies allow equity traders to quantify the content of any news message almost immediately when it arrives at a rate of many thousands per day. Apart from the scheduled numerical data that is being used for many years now and for which the speed of processing is the key issue, recently developed technology also allows the automatic processing of non-scheduled and non-numeric messages, including corporate press releases and analyst reports. The fact that this new technology creates new opportunities to generate Alpha seems intuitively clear. However, exactly how news analytics are to be used, is still a point of lively discussion. In this presentation SemLab, as leading provider of news analytics technology, presents some considerations when a potential user sets out to assess the benefits of automatic news analytics for their equity trading strategy.

Short Term Risk from Long Term Models

Dan Di Bartolomeo, Northfield Information Services

In this presentation, we demonstrate a state variable approach to security and portfolio risk assessment. Volatility and correlation estimates arising from conventional factor modeling approaches are adjusted on a near real time basis, conditional on the flows of machine readable news and other observable market information. A formal Bayesian framework is used to calibrate the process, and related adjustments to the distributional assumptions are included. In this presentation, we demonstrate a state variable approach to security and portfolio risk assessment. Volatility and correlation estimates arising from conventional factor modeling approaches are adjusted on a near real time basis, conditional on the flows of machine readable news and other observable market information. A formal Bayesian framework is used to calibrate the process, and related adjustments to the distributional assumptions are included.

Equity Portfolio Risk Estimation Using Market Information and Sentiment

Leela Mitra, OptiRisk systems

Multifactor models are often used as a tool to describe equity portfolio risk. Naturally, risk is dependent on the market environment and investor sentiment. Traditional factor models fail to update quickly as market conditions change. It is desirable that risk model updates incorporate new information as it becomes available and for this reason diBartolomeo & Warrick introduce a factor model that uses option implied volatility to improve estimates of the future covariance matrix. We extend this work to use both quantified news and implied volatility to improve risk estimates as the market sentiment and environment changes.

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[Workshop Programme \(cont.\)](#)

Exploiting News-flow Signals

Andy Moniz, Macquarie

In this presentation, we assess the efficacy of incorporating news flow information into investment processes. We show that investors can exploit news-flow datasets by either trading directly on news-flow or combining the dataset with earnings or price momentum based factors.

Investors have traditionally relied upon earnings momentum factors to incorporate corporate news-flow, though commonly known biases suggest that not all available information is reflected in analyst forecasts. Moreover, earnings revisions strategies typically do not identify the piece of information that has triggered the change in forecasts. We look at corporate news-flow as a leading indicator of analyst revisions, that is, how different types of news are incorporated into analysts' earnings forecasts.

In the case of price momentum based strategies, we show that momentum profits can be improved by understanding the motivations behind investors trading decisions by incorporating attention behavioural biases which we proxy by volume and news-flow datasets.

US Markets: Earnings News Release – an inside look

Marian Munz, Media Sentiment

- ⇒ The reading of an earnings news release: what it is, major components, main regulations and their impact, language used by senior management
- ⇒ The impact of earning news on stock prices: why earnings news matters, information that moves stock prices, main reasons why stocks move, trends and statistical significance.
- ⇒ Case studies – Media Sentiment® in action

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Speaker Biography



Prof. Gautam Mitra is an internationally renowned research scientist in the field of Operational Research in general, and computational optimisation and modelling in particular. He has developed a world class research group in his area of specialisation with researchers from Europe, UK & USA. He has published three books and over hundred refereed research articles.

He was the Head of the Department of Mathematical Sciences, Brunel University between 1990 and 2001. In 2001, he has established CARISMA: The Centre for the Analysis of Risk and Optimisation Modelling Applications. CARISMA specialises in the research of Risk and Optimisation and their combined paradigm in decision modelling. Professor Mitra is a Director of OptiRisk Systems UK and OptiRisk India. Many of the research findings of CARISMA are exploited through these companies.



David Leinweber is a Haas Fellow in Finance at the Haas School of Business at UC Berkeley, and founding Director of the Center for Innovative Financial Technology at Berkeley. He is the founder of two pioneering financial technology firms and successfully managed multibillion-dollar institutional portfolios for many years. Dr. Leinweber has consulted, published, and lectured widely on the use of advanced technology, artificial intelligence, and intelligence amplification in finance - always in an easy and accessible way - and has earned the reputation as "class clown of the quantitative investing industry." He received BS degrees in physics and electrical engineering from the Massachusetts Institute of Technology and a PhD in applied mathematics from Harvard University.



Richard Brown is the global business manager for the machine readable news program at Thomson Reuters, responsible for the NewsScope product portfolio, which includes its archive product, real-time feeds, and news analysis solutions. Prior to his current assignment, Mr. Brown co-founded and was the Chief Operating Officer at Foresight Research Solutions, LLC, a New York-based independent research firm and member of the NASD and SIPC. Prior to Foresight, Mr. Brown was a senior client manager for International Business Machines in New York. He holds a Bachelor's degree in Management and International Business from the Pennsylvania State University and an MBA from New York University's Stern School of Business.

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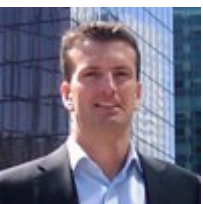
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Speaker Biography



Peter Hafez joined RavenPack in 2008 as a Senior Quantitative Analyst responsible for enhancing existing data products as well as designing new ones based on RavenPack's linguistic analysis. Peter has had extensive experience in developing cutting-edge investment strategies and financial products; and in bringing them to market. Prior to joining RavenPack, Peter held various positions in the portfolio management and alternative investment industry both in London and in Copenhagen, Denmark. After leaving a research position at Sir John Cass Business School within the Financial Econometrics Research Centre, he continued his career first at Standard & Poor's, and later at Credit Suisse First Boston. Most recently, Peter has worked as a Senior Quant and Head of CHARM at Saxo Bank in Denmark with special focus on the areas of Asset and Wealth Management. In addition to the various positions held, Peter Hafez has acted as an advisor and consultant to businesses within the quantitative trading and investment industry.



Mark P.W. Vreijling (MSc PhD) is the R&D director and co-founder of SemLab and has more than 15 years experience in research and high technology product development. Dr Vreijling is a scientist at heart with a clear focus on the practical opportunities of scientific innovation. He is a dedicated student of knowledge technology in combination with communication science and artificial intelligence and together with his team he holds eight recent patents in the field of semantic and fuzzy logic based decision support for applications in finance and medicine.



Dan Di Bartolomeo is President and founder of Northfield Information Services, Inc. Before starting Northfield, he held the position of Director of Research at a New York investment firm, where he was responsible for investment strategy and equity, fixed-income, and derivatives research.

Dan writes and lectures extensively and frequently presents papers at academic and industry meetings. He serves on the boards of the Chicago Quantitative Alliance, Woodbury College, and the American Computer Foundation, and the Boston Committee on Foreign Relations. He is an active member of the Financial Management Association, QWAFEFW, the Southern Finance Association and the International Association of Financial Engineers.

He has published numerous articles and papers in a variety of journals, has contributed chapters to several finance textbooks, and recently finished his first book on investment management for high net-worth individuals, published by the CFA Research Foundation. He received his degree in applied physics from Cornell University.

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Dr Leela Mitra is a Quantitative Analyst at OptiRisk Systems. She received her PhD in Operational Research on the topic of "Scenario generation for asset allocation models" from CARISMA: Centre for Analysis of Risk and Optimisation Modelling, Brunel University. She holds a 1st Class BA (Joint Honours) degree in Mathematics and Philosophy from King's College, London.

She previously worked as an Actuarial Consultant for Mercer HR and Jardine Lloyd Thomson and completed the Diploma in Actuarial Techniques.

Industrial projects include development of a LDI/ALM system for Insight Investments, a portfolio allocation model with long-short holdings for UBS. She undertook research for RavenPack International to develop a model for equity risk that incorporates quantified news. Her research is focussed on asset management problems represented as Stochastic Programming models. Particular research includes an equity price model which concentrates on worst case events and a model for credit risky bond portfolios with regime switching.



Marian Munz invented the media sentiment concept and technology and led the development of the proprietary technology that delivers consistent results.

Munz, is the founder, president and chief executive officer of Media Sentiment, Inc. He is one of the world's experts on financial news and media analysis, internet software and decision support systems and has led the development of internet software since the mid '90's.

His products have been recognized by prestigious publications such as PC Magazine, Windows Magazine, Byte, PC World and ComputerWorld, financial institutions such as Reuters, TD AMERITRADE, optionsXpress, FinancialContent as well as industry experts such as John C. Dvorak.

Munz has been trading equities and options for over ten years. He also provided information technology consulting services to companies such as IBM, Apple Computer, Sun Microsystems, SBC Communications, Chevron and others. He holds an M.S. in information systems from Golden Gate University in San Francisco.



Andy Moniz is a Quantitative Analyst within the Global Quantitative Research group at Macquarie. His research interests have focused on event driven studies, stock selection strategies, style and thematic research. The Quantitative Research group comprises 22 analysts globally, with teams operating in all the major equity market regions. Andy began his career at the Bank of England before working within fundamental research at Credit Suisse and as a quantitative analyst at Citigroup.

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