



# Alternative Benefits of Alternative Data

Lesser-known use cases for Alternative Data

**By: Qaisar Hasan & Stan Altshuller**



**Maiden Century**

## Introduction

Most Hedge Fund managers and a growing number of traditional asset managers have turned to Alternative Data to bolster their investment strategies and workflows. Alternative Data refers to non-traditional sources of financial or economic information that investment managers can use to gain actionable insights and make better-informed investment decisions. This type of data can come from various sources such as foot traffic data, satellite imagery, web traffic, and consumer spending datasets. Using Alternative Data can help investment managers in many ways, but the most common use case amongst managers remains basic.

Managers new to Alternative Data primarily rely on consumer transaction panels to build predictive models that aim to beat the market consensus view for a company they are tracking. They monitor a specific KPI (usually Revenues or similar) that companies announce on quarterly earnings calls. Since sell-side analysts regularly publish their estimates for the commonly tracked KPIs, the managers have a benchmark to measure their own estimates. If their model shows a discrepancy between the data and the market, they may put on a trade. If they are correct, and the market is surprised on either side, (hopefully) the price reacts in their favor.

Thinking of this data as only having one purpose can lead to much value being left on the table. This use case is scratching the surface of the total value Alternative Data can provide to a savvy investment professional. In this article, we will look at other lesser-known benefits of Alternative Data and share how applicable and actionable this data can be beyond what many managers consider. If you are a manager or analyst thinking about adding data to your own process or think you can get more out of your existing data, consider all the benefits your data can yield. Thinking this way can help improve your analytics, help you tell more compelling stories about your companies and their customers, and maximize the value of your Alternative Data spend. After all, in Data Science, knowing which questions to ask from your data is just as important as knowing how to answer them.

### **Macro-economic and thematic analysis**

When writing an investment thesis or pitching a stock idea to a PM, it is extremely important to have the right context and an overarching view of the market the company serves. Not all managers know that broad, thematic analysis of sectors (macro analysis) is

no longer the realm of traditional market data alone. Alternative data can help identify macroeconomic trends and themes by providing insights into consumer sentiment, purchasing patterns, and global events that traditional data cannot. It can also help you monitor economic indicators such as inflation more efficiently.

For example, social media data can reveal shifts

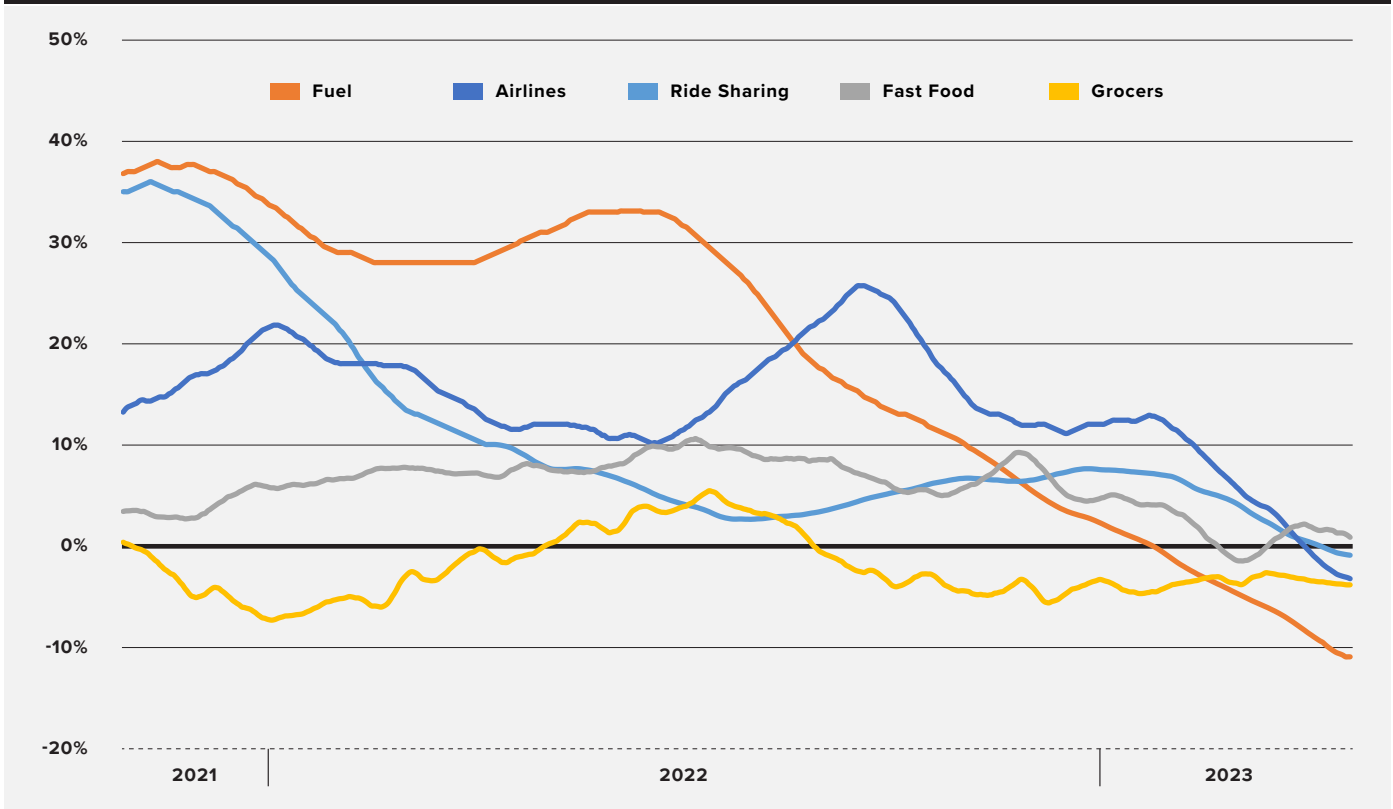
in consumer preferences. At the same time, satellite imagery can track construction activity or natural resource production, offering investment managers a real-time view of economic trends and investment opportunities. Foot-traffic data can also be used to effectively measure broad visitation to retail outlets and changing hotel vacancy rates. All of this can be done on a macro level, aggregating thousands of locations into a "basket," and all on a 1-2 day lag.

Alternative Data, specifically transaction data, has been successfully used to tell a coherent story about the economic recovery post-COVID-19. Spending data was used to understand the impact of government stimulus on the consumer and to accurately gauge the behavior of customers eating out at restaurants after lockdown measures were lifted. The same thing can be said about many other industries, such as the Fitness industry and the Home Improvement industry; both were better indicators of consumer confidence and consumer health than official figures. Another important topic on investors' minds in this current macroeconomic environment is inflation and its effect on various

markets. Using anonymized data from credit card transactions, investors can accurately gauge inflation across industries in near real-time. An example from one of Maiden Century's Data Partners, Yodlee is shown below.

To dive deeper, it's not necessarily as important to predict inflation itself but rather, to understand the sub-sector pricing trends and inflection points that are driving consumer behavior. Furthermore, investors want to be aware of how these subtle changes in behavior impact individual companies and brands within those industries. This level of granularity and the ability to study these trends live as they unfold is simply not possible on your traditional data terminal. Traditional data is questionably aggregated, riddled with omissions, and comes with a heavy lag; all challenges that Alternative Data can help avoid. If you are not currently using Alternative Data to add broad macro context to your research, you are missing a key value proposition – value that you are likely already paying for.

### US Inflation Estimates in Key Sectors: 13-Week Rolling Avg. YoY (%)



Source: [Yodlee](#)

## Competitive Analysis

Which e-commerce brand is poised for growth and market dominance, and which is experiencing a decline, being abandoned by its customers? Investment managers can use Alternative Data to analyze a company's competitive position within an industry with much greater efficacy than using traditional data alone.

One example is analyzing web traffic data. Web Traffic analytics is made possible through "Clickstream" data. This data is sourced after users consent to a computer application tracking their website visits and clicks and aggregating the data afterward. Clickstream can inform more than just visits to online stores; it can also shed light on engagement and loyalty. In addition, it can indicate the popularity of a company's products relative to their closest competitors and peers. As the battle for online dollars rages, web traffic is a key indicator for market giants like Walmart (W) and Amazon (AMZN) and smaller retailers competing in their respective industries like Overstock (OSKT) and Wayfair (W).

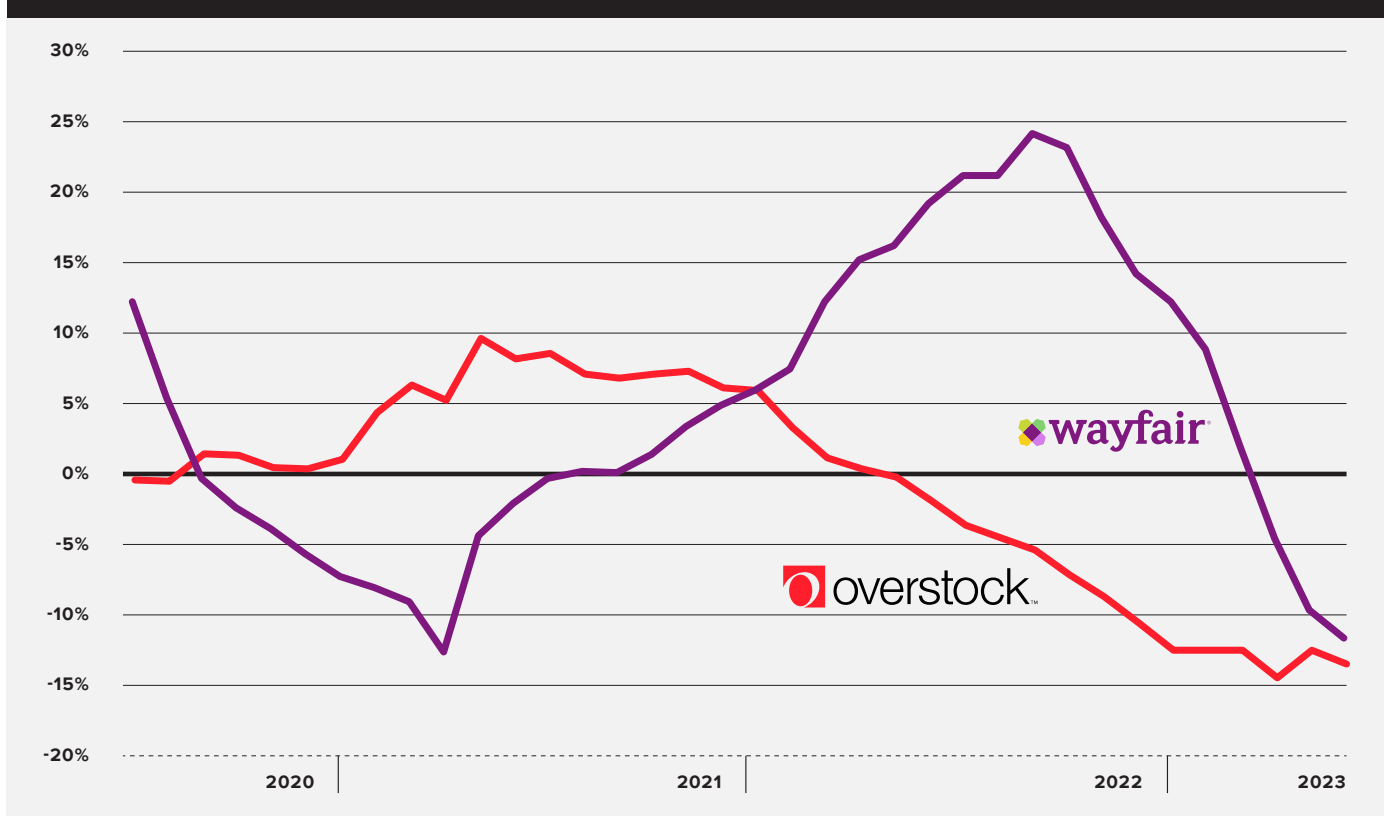
Data-savvy investors can ask very specific questions and compare granular KPIs to weigh consumer behavior among companies to conduct competitive analysis.

Evaluating metrics such as customer engagement, retention, and cross-selling (How many of my company's customers also shop at its main competitor?) can help managers identify competitive advantages or weaknesses and thus make better-informed decisions. None of this analysis can be possible without accessing the data "under the hood" and analyzing it creatively.

Another source of actionable competitive information is human resource data. This data is gathered from professional network sites such as LinkedIn. Trends in headcount can be compared across companies to measure which companies are investing more in RnD and new technologies such as AI, indicating their positioning for the future. The below chart is sourced from one of Maiden Century's data partners, Revelio Labs, who were kind enough to grant permission for us to use a sample of their data. The chart compares engineering headcount changes of two companies in the years leading up to the US lockdowns and the subsequent recovery. As you can imagine, this is just a taste of the kinds of competitive analytics you can run on this data.

By leveraging Alternative Data in competitive analysis, investment managers can make more

### Engineering Headcount: YoY Change (%)



informed decisions on a company's potential and help bolster their research efforts.

### Screening (Idea Generation)

Alternative Data can be used as a source of differentiated idea generation and can help reduce a common and persistent problem in the investment world – crowding. In this context, crowding refers to a large number of investment managers investing (or opening short positions) in the same name. Depending on the liquidity of the investment, crowding can significantly reduce liquidity and increase the risk for everyone involved.

The traditional process of idea generation involves several common steps. We wrote about this problem in detail in our recent blog post about hedge fund crowding and its causes. In short, the common steps that managers engage in for idea generation, like speaking with management, reading sell-side reports, screening valuation metrics, and attending investment conferences, lead to a sort of echo chamber. This contributes to dangerous group-think and piling into the same position, often resulting in significant losses for managers and their investors.

Alternative Data provides a clear advantage in several ways. First, the data is very granular, allowing the managers to screen on KPIs other than PE ratios. This lets analysts and PMs get more creative with their selection criteria when screening for new ideas. For instance, they may want to narrow their "revenue deceleration" screen down to companies that are also experiencing a drop-off in customer engagement on the website and their most popular customer-facing app. Or they can flip the equation altogether, starting the screen based on Alternative Data and adding traditional analysis afterward.

Another thing to consider is that this data comes on a very low lag, especially when compared to the quarterly release of public financial statements. Managers can analyze revenue models with just a 2-3 day lag allowing them to spot inflection points much quicker than managers monitoring traditional data alone.

Using Alternative Data for screening can help investment managers stay ahead of the curve and avoid crowding by uncovering new and unique opportunities that may be overlooked using traditional methods alone.

### New Product Launches and Holiday Sales Analysis

Alternative Data can help investment managers evaluate the success of a key promotional event (Like Amazon's Prime Day) or a new product launch, beyond what could be gathered from traditional sources of data. Various data sources can provide enough granularity to analyze estimated sales by product. Spending data, for instance, credit card transactions and email receipts, have metadata that can enable each transaction to be tagged not only to the company but to a specific product line and even a specific product.

The timely delivery of this data can be critical for understanding the early success of a product launch and the subsequent consumer adoption of the new product. The success of a new product launch can significantly impact a company's growth trajectory and, in turn, its stock performance.

Timeliness of Alternative Data is also important since relying on the company to disclose sales numbers can take weeks. This helps in gauging the success or disappointment of holiday season sales or key promotional events before the rest of the market catches on. Consider this when you need to estimate sales around holidays, Black Friday, or the launch of a new product: You could be analyzing Valentine's Day sales on February 20th, while the rest of the market participants must wait several more weeks.

Thanks to its granularity and timeliness, Alternative Data can help investment managers assess the potential of a new product launch or evaluate the success of holiday sales by providing insights into consumer behavior well ahead of the broader market.

### Risk Management or Risk Monitoring

Risk management is a crucial aspect of successful investing and is a key focus point for any prospective investor performing due diligence on a fund manager. Investors look for an institutionalized process that is comprehensive and methodical. Alternative Data can play a key contributing role in risk management, making it broader and more sophisticated. By monitoring real-time data, risk managers can be aware of various factors that may impact a company's performance or an industry's outlook. Let's consider some examples and use cases where Alternative Data can be helpful for risk management.

One innovative way risk managers can keep a pulse on

a company's health is by monitoring employee reviews and headcounts. Employee review websites and job posting data can provide insights into a company's workforce satisfaction, turnover rates, and hiring patterns. A high rate of negative employee reviews or sudden changes in hiring patterns could signal a red flag indicating internal issues such as poor management, culture problems, or even poor finances. These issues are very difficult to detect through traditional data as management is understandably very keen to keep them private.

Supply Chain Monitoring is another example where Alternative Data can help mitigate risk. Analyzing data from shipping records, import/export data, or satellite imagery can help investment managers monitor a company's supply chain and identify potential disruptions. For instance, a sudden increase in shipping delays or a drop in production levels could signal a supply chain issue that may impact a company's financial performance.

Some risk managers choose to monitor flight records to and from the headquarters of companies whose stock they are short. Regular visitation from a larger company in the same industry may be a warning of a potential buyout or partnership that can impact stock price.

Finally, monitoring regulatory filings and legal

proceedings can alert investment managers to potential compliance issues or legal disputes that could impact a company's operations or reputation. For example, a series of regulatory investigations or lawsuits could signal governance concerns that may negatively affect a company's stock price.

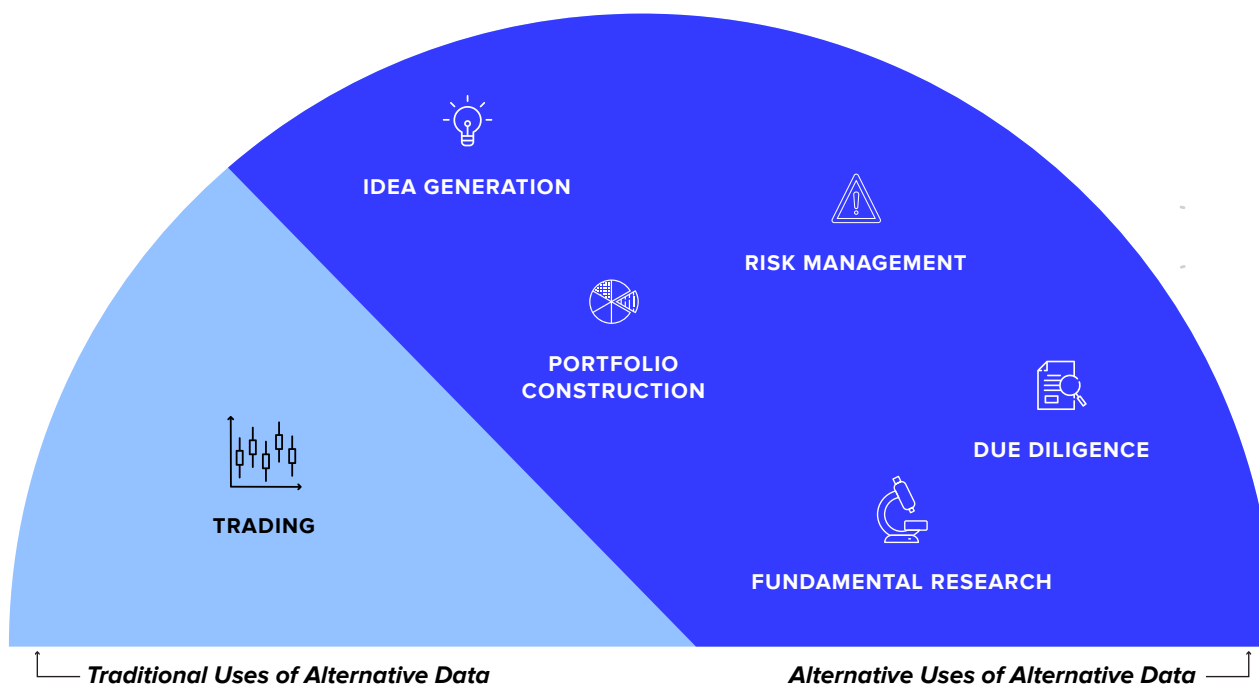
### A better understanding of the true drivers of a company's revenue

Some of the most important KPIs for a company that its own management tracks internally are never reported publicly.

Thankfully for investors, Alternative Data can offer investment managers a more comprehensive view of the factors driving a company's financial performance. Consider a retailer who is struggling to convert visitors to paying customers. Very few actually publish conversion rates that are key to the quality of their top-line results. Investment managers using Alternative Data can calculate conversion rates by analyzing two types of data together: Website traffic (for visits) and credit card data (for transactions). With some manipulation, managers can track conversion rates through time and even compare the rates of one company to another (or a basket of companies).

The same thing can be done with brick-and-mortar retailers, substituting website visits with actual

## Alternative Data Use Cases





storefront visitation via a geolocation dataset. Getting customers in your stores for the holidays is great, but how many of them are spending, and what is the trend for total spend per visit? This type of data is extremely difficult to attain from public sources or even from the management themselves. And even if the management does disclose such numbers, it is always a good idea to have a way to double-check their claims.

## Conclusion

Managers invest significant resources into maximizing the ROI on every investment in their portfolio. Their data should be no different. Getting the most value from your Alternative Data spend can help significantly bolster your research process and help

you across several other areas, such as idea generation, thematic research, and risk management. In this challenging market environment for alpha generation, Alternative Data can be a powerful arrow in your quiver, and it can serve you well beyond simply predicting the quarter. It can make you a better portfolio manager, risk mitigator, idea generator, and investor.

We hope this article has given you some new ideas about the types of questions you can ask from your data and some new ways you can use your data assets to increase their ROI to your organization. If you have additional ideas on how Alternative Data can be helpful, please reach out. Likewise, if you would like to talk to us about helping you get the maximum value from your data, we would be happy to hear from you.

For more information, please contact:

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**Qaisar Hasan**

Founder, CEO

[qhasan@maidencentury.com](mailto:qhasan@maidencentury.com)

**Don Wood**

Chief Revenue Officer

[don@maidencentury.com](mailto:don@maidencentury.com)

**Mark Trowbridge**

VP, Sales

[mark@maidencentury.com](mailto:mark@maidencentury.com)

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