Social Media Analysis for the Financial Markets

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SOCIAL INTELLIGENCE

Naroclips monitoring technology integrates information analysis across web news sources and media channels to identify the information you need to prioritize your business response and optimize decisions.
Abstract

This paper summarizes the latest updates in academic research regarding the influence of social media analytics in the financial markets, as opposed to their established impact on marketing and brand management. Our updated perspective and predictions for the industry, as well the advances in social media are described in detail.

A brief historical background of the role of social media in finance

The ever growing impact of social media in our lives—in more ways than we can imagine—is an undisputed fact. A simple look at the numbers is convincing enough; 12 social media platforms, 100 million users (according to Adobe), with Facebook alone having 1,310,000,000 monthly active users (according to Statistic Brain Research Institute, April 2015). From businesses to governments, and from private individuals to organizations, everyone is using various social networks, such as Twitter, Google+, WorldPress, Tumblr, Instagram, etc., to share, compare, and exchange ideas, and experiences.

Many firms, as early as in 2006, proceeded to the generation of social data analytics, by monitoring references to specific brands, names and entities, and extracting insights from conversations. Gradually and steadily, the new fields of Social Media Monitoring and Social Media Analytics started gaining attention, helping companies and organizations feel the public pulse regarding their products and services.

On the other hand, the finance industry is something completely different, as professionals and experts are usually less eager to share their opinions and inside knowledge with the public, and especially on social media. In the beginning, Twitter was used by individual professionals for sharing the latest news and trends, but analytics were scarce. However, everything changed in 2013, when noteworthy events and insights started appearing frequently enough in tweets, grabbing instant attention by asset managers and connoisseurs, such as when SEC confirmed that it was
legal for companies to use social media for announcing strategic information (in compliance with Regulation Fair Disclosure), or the announcement of the notorious Hash Crash in April 2013 that drove 140 points off the Dow in two minutes. All this—along with the evolution of social media analytics in the fields of marketing and brand management—inspired more and more firms and experts to explore new approaches, leading, however, to a period of a much slower progress. Social Media analytics should be based on high quality content, in order to be accurate and reliable. With finance related information, things were not as easy as with brand related content, since the first was considerably limited in the beginning. Now, that tools for searching and sourcing have matured, firms can research and study the patterns and insights, to draw safer conclusions.
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Capture the news that matter most.

Discover Naroclips, the only social monitoring platform that offers one of the most comprehensive news monitoring and analytics solution in the industry reputed for clean, accurate news and social data as well as for powerful measurement, engagement, distribution and reporting tools.
The gradual progression of financial discussions

The growth of the capital markets, the macroeconomic indicators, FX, equities, and earthshattering events constitute the base layer for the generation of valuable analytics in the field of financial services, while their structure, depth and scale have changed dramatically over the last years. In 2012, Twitter has changed the game, by launching Cashtag, allowing users to click on stock symbols and check out any related information shared across the platform. Of course, this innovative feature was introduced by the co-founder and CEO of StockTwits, Howard Lindzon, in 2008, but Twitter took it off the ground, with numbers speaking for themselves. From 2011 to 2014, the Cashtagged conversations in Twitter regarding Russell 1000 securities increased by more than 550%, getting several million messages per quarter, and the use of the Cashtag convention has expanded to futures, FX, commodities and alternative investments.

Another intriguing area of activity is currency pair discussion. According to Investopedia and starting from 2013, there were around 500,000 messages per month with a reference on at least one of the top 18 most actively traded currency pairs, while discussions regarding domestic equities, futures and FX were fired up on Twitter from 2011 until 2014.

Moreover, except from the microblogging content of Twitter and StockTwits, other similarly structured social media have emerged, such as Estimize – an open platform that enables the collection of financial estimates from more than 7,000 independent, buy-side, and sell-side analysts, as well as those of private investors and students –, and SumZero – that has created a conceptually similar platform for research and trade idea sharing.
The emergence of dedicated financial social media tools

With the emergence and growth of financial social media sites and discussions, various professionals from the fields of financial analysis, trade, technology and education started asking for real time accurate data to extract.

Now, this entire field took a life of its own, with the launch of credit, FX and commodity analytics platforms emerging in the market, while in the energy markets, we have started integrating social data and calculating a sentiment index. Risk management was yet another domain that attracted the attention of the business and academic community, with global consulting agencies, such as McKinsey and PwC, recommending the use of social media and textual analysis as an essential part of counterparty risk assessment.
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Go beyond Monitoring - Act with confidence

Turn insights into action for Business Intelligence (BI) solutions or Engagement
The value of social data in financial services

The conversion of social data into meaningful and useful intelligence is tricky, so the entire process was divided into the following 5 phases:

1 **Sourcing social data:** The first step towards the creation of reliable analytics is the collection of the necessary data from the right source. Taking under consideration that each business has its own unique needs, the source selected must be able to provide adequate, reliable and relevant to each case data, including a valid historical background, and the right search tools.

2 **Elimination of noise:** The second step is to remove or at least minimize duplicate, unimportant and especially irrelevant data, without losing valuable information. There are three tools that can be used for effective filtering. First of all, social media platforms, such as Twitter and Gnip, provide base-level filtering. Moreover, tools for successful selection of relative, influential and important data have been implemented. And, finally, there is Text Similarity Metrics that can filter out unoriginal content.

3 **Topic-specific filtering:** Accurate specific topic text filtering is essential, especially with the tremendous growth in the volume of social data.

4 **Categorization, Assessment and Grouping:** Analytics can be generated when the right data is collected. There are various analytic perspectives, but the following are the basic: User-Centric, that focuses on key users based on influence or for emphasis; Topic-specific scoring, that focuses on sentiment, volume and depth around a specific topic; and, finally, Trend Tracking, that focuses on special topics or events that indicate the emergence of a new trend or innovation.

5 **Links to Existing Data:** The last step is to link data back to the existing processes. More specifically, in financial use cases, this step would entail linking equity Cashtags back to ticker-driven data. Once this link is established, the true value of social data will be revealed.
The role of the academic community in the improvement of analytic techniques

In order to establish the influence of social media analytics in the financial markets, the academic community attempted to associate social sentiment with stock prices and then stock prices with social and trading volume. Later studies focused on improving and implementing social data in the capital markets, while recent studies attempted to find ways to improve the initial approach of Johan Bollen, who was investigating the relation between social media and science, markets, sentiment and metrics from usage data.

In a study conducted in 2012, academics explored how layering social graphs on top of financial discussions improved correlations. They also explored how the interaction between users and the identification of user clusters could help ameliorate stock prediction based on tweets. Another 2012 research expanded the analysis and examined the Twitter buzz around commodities like oil and gold, exploring the sentiments created based on indexes such as worry, fear and hope, concluding that the correlation between sentiments and following-day-prices is quite strong.

In the last couple of years, we have experienced an increase in the interest for services involved in social media analytics for financial markets. Finance-related discussions have become more direct on social media. And nowadays more and more leading firms use social data for research and trading use cases, but also to feel the public pulse. As the public’s demand widens, new incentives are emerging to channel new content to social media platforms, rendering financial applications feasible.

Needless to report that there are still many challenges on multiple levels, as standards need to be established for international growth and methods need to be improved for mining non--Cashtag data. In the case of social media data use for brand management and marketing, the expansion of content paved the way for the creation of new methods of monitoring and analysis. The same thing applies for social media analytics in finance services. As new tools and information are continuously developed for global content monitoring, the field’s professionals need to assess which ones best fit with their investment theories and principles. Those that will successfully select and implement the right tools and data will enjoy the consequential advantages and returns.
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Quickly snapshot public sentiment around your brand in any language and catch potentially negative situations – before they escalate.

Expand your social reach and build connections with the right people and companies for your brand advocacy programs. With Naroclips you can identify top influencers and generate targeted awareness around your brand.