Stocks trade on "intensity" of reaction to an extrinsic event. Most programs focus on intrinsic indicators.

News-Based Stock Trade Signals

monograph | offering | summer 2009

STRATEGY
Most trade signal systems are restricted to analyzing data from inside the markets or company financials. This system relies on data created outside these markets.

STRATEGY
Numbers are critical to trade signal systems. News has never been used because it cannot be reduced to numbers, until now. Infornautics can correlate news event activity to stock volatility.

STRATEGY
This system is not intended to only analyze earnings announcements and other company-driven news. Dramatic stock impacts can be better derived from unrelated events like a terrorist plot.
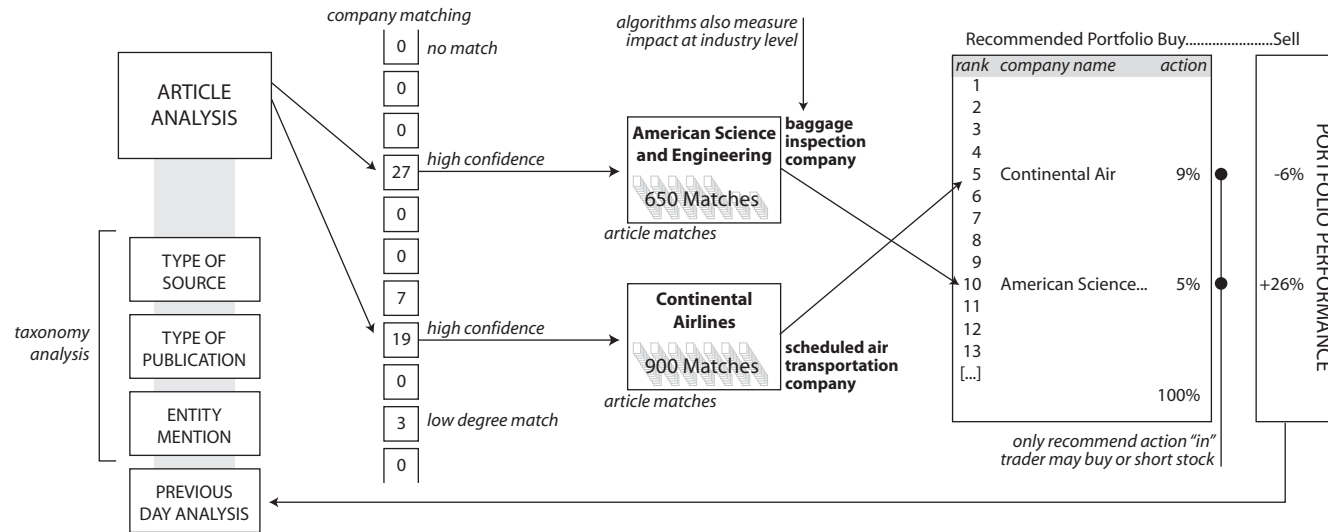
Computers have the power to analyze 150,000 news articles each day, match article context to 12,000+ public companies and find non-obvious signals that will drive intra-day or short-term stock volatility.

Imagine this scenario — a terrorist plot to bring down planes using explosives is thwarted (8/9/06). Is it fair to predict that airline stocks will suffer (-6%) the following day and baggage screening companies will trade higher (+26%)?

While the above example is obvious, at Infornautics, we believe daily news events have a non-obvious* impact on stock performance, which can be accurately predicted using computer algorithms.

The system gathers news articles and analyzes content. Content is matched against automatically created profiles of 12,000+ public companies on a 30 point scale. If the article matches on 27 criteria, we call this 90% confidence that the news event has a direct correlation to the company's business. If several hundred articles match a company profile, we can assume stock performance may be affected shortly after the event reaches a certain level of saturation, e.g. terrorism impact on baggage inspection.

Weightings can be given to key "national" news sources. Blogs can be analyzed for matches. System can run overnight and build buy lists each morning before the opening bell. It can even recommend what percentage of a portfolio to allocate on each stock. Lastly, the system can use previous day gains and losses to automatically improve trade signal accuracy.

Note: While humans can detect "major" events and adjust trading strategies, this system is designed to analyze the next tier using non-obvious correlations.

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