

A photograph of two women, one with dark curly hair and one with blonde hair and glasses, both wearing white blouses. They are smiling and looking at a smartphone held by the woman with dark hair. The background is a rustic wooden wall.

# Investing just got social

## ETF.com – Industry Perspective: *Sprott: New ETF Captures Investor ‘Buzz’*

*The recently launched Sprott BUZZ Social Media Insights Exchange Traded Fund (ETF) is a first-of-its-kind fund that leverages insights from social media as an investment strategy. Edward Coyne of Sprott Asset Management USA and Jamie Wise of BUZZ Indexes discuss the thesis underlying the creation of the fund.*

### Who is Sprott Asset Management and what is the Sprott BUZZ Social Media Insights ETF?

**Edward Coyne:** Sprott is an alternative money manager with a growing suite of smart beta ETFs. Our strategy is to leverage our experience as active managers to design innovative and unique ETFs that address unmet investor needs. The ETF harnesses big data to identify actionable investment insights from the social media collective which we believe provides investors with an innovative and valuable investment strategy. The ETF is designed to be a sentiment-driven momentum strategy with the potential to add alpha to a portfolio.

### Why is now the right time to launch this ETF?

**E.C.** Over the past few years, the investment world – which has always been on the lookout for new ways to gain an informational advantage – recognized the value of big data. Quantitative- and fundamental-based investment managers are integrating social media’s big data into their investment processes. Data providers such as Bloomberg and Thomson Reuters are providing social analytics on individual stocks to their clients. The Sprott BUZZ Social Media Insights ETF provides investors with access to this institutional strategy – packaged in a convenient ETF.

### Can you give me an overview of how you came to create the BUZZ index and what it’s supposed to capture?

**Jamie Wise:** The process for us started a little over three years ago when I realized what was happening in the space with consumer product companies gleaning insights from big data from social media to understand their customers’ behavior and their customers’ perception of their individual brands. And they are using that data to help them drive product development decisions, marketing and advertising decisions, and that led to me thinking about how that would ultimately develop within the world of finance.

Back then, there was some early academic research about investment insights to be gleaned from the social media landscape, and we started doing our analysis. We found it was still in the early stages. There were the beginnings of some interesting data, but there wasn’t enough depth to the conversation for us to have confidence that what was being said online could ultimately translate into observable results within asset prices and stock prices specifically.

And it all really changed within the last couple of years, where a few key things happened. The first was the adoption by Twitter of the cash tagging methodology—that's where you put the dollar sign before the stock symbol. That created a forum where people could find common ground to talk about their stocks and really widened the breadth of the discussion.

All of a sudden, the growth of online discussion with respect to investments just started to skyrocket. It was really creating baseline levels of conversation – the bigger the stock, the more widely held the stock, the more people there were talking about it online.

Once we saw that happening, we could then start to model and look for changes in sentiment as it relates to those stocks. We discovered that the overall level of buzz or sentiment around stocks was in fact predictive and could lead to a process where you could select stocks ranked based on that level of sentiment and ultimately come up with a portfolio of securities that could outperform the market.

### How many social media sources are you looking at?

**J.W.** It changes over time. It's certainly far more than just Twitter. It could be anything—Twitter, Facebook, news sites, comment sections, websites like Seeking Alpha. Anywhere people are talking about stocks, we'll target those sites and look to get insights from them. And that could be either in what's referred to as unstructured, short-form data—which would be Twitter comments—or even longer-form discussion posts that you would find on sites like Seeking Alpha.

Certainly, Twitter has the highest volume of conversation. It's easy for people to talk about stocks on Twitter but what you find as the market matures is that oftentimes within Twitter they will include links to longer-form discussions. So people might break their views on Twitter and then link it to a longer-form conversation about that particular investment view.

### How do you weight these different social media outlets?

**J.W.** For us, what is being said matters more than where it is being said. We weigh different factors within our analysis. When we talk about the information that we're able to analyze from the social media data set, we're looking for more than just sentiment. So while we track user generated sentiment relating to a stock's investment prospects, together with sentiment relating to its brand, the process goes deeper than that. When discussing our approach, we prefer to use the word 'insight' because while investor sentiment is certainly a key part of the analysis, it's not the only factor that goes into the analysis.

A couple of other factors that we consider are user influence and reliability. We monitor who is creating the content and we also factor how many people are following that individual—for example on Twitter—or how many people are commenting in the comment sections relating to that individual.

We also consider an individual's reliability, or accuracy, within their investment forecasts. We put all these factors together into an overall insight score, which we then use to rank the overall perception of a given stock.

### So what kind of index does all of that result in?

**J.W.** There are 4,000 to 5,000 stocks that people are talking about in various degrees at any one time across all these social media forums. But what we found through our analysis was, the more people involved in the conversation, the more likely it is that the views that are being represented within that conversation are propagating through the social universe, and ultimately into the stock price.

We target the 100 most-talked-about stocks across the social media landscape over the past year as the potential universe of stocks to be included in the BUZZ Index. Being able to observe changes in the sentiment of those 100 stocks gives us more confidence that what is being shared will end up actually being reflected into the stock market.

We rank the stocks within our top 100 universe by their sentiment and apply our insight scoring methodology. The top 25 highest scoring stocks are the ones that are included in the Index each month.

### What kind of sector distribution does the index have?

**J.W.** Sector allocations are a by-product of which stock discussions are trending the most and ranking the highest in terms of sentiment. Typically, consumer discretionary and technology stocks tend to be well-represented in the Index because of investor interest and brand affinity. However, the Index is dynamic and will shift as the buzz and sentiment change. More recently, we have observed a material improvement in investor sentiment among select companies in the out-of-favor energy and materials sectors.

### How do you weight the stocks in the index?

**J.W.** We think it's important that those stocks with the most positive sentiment get the highest weightings within the Index. We weight them according to the insight scores that we're generating out of our model. So the higher the insight score, the higher the weight in the Index. We also have a single-security weight limit of 15%.

## DISCLOSURE

**An investor should consider the investment objectives, risks, charges and expenses carefully before investing. To obtain a prospectus, which contain this and other information please contact your financial professional or call 1.855.215.1425. Read the prospectus carefully before investing.**

**Sprott Buzz Social Media Insights ETF shares are not individually redeemable. Investors buy and sell shares of the Sprott Buzz Social Media Insights ETF on a secondary market. Only market makers or "authorized participants" may trade directly with the Fund, typically in blocks of 50,000 shares.**

**The Fund is not suitable for all investors. There are risks involved with investing in ETFs including the loss of money. The Fund is considered non-diversified and can invest a greater portion of assets in securities of individual issuers than a diversified fund. As a result, changes in the market value of a single investment could cause greater fluctuations in share price than would occur in a diversified fund.**

The fund is new and has limited operating history.

Diversification does not eliminate the risk of experiencing investment losses.

ETFs are considered to have continuous liquidity because they allow for an individual to trade throughout the day.

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice.

The ability to invest based on social media analytics is relatively new and untested. The Fund may invest a significant portion of its assets in securities issued by companies in the information technology sector in order to track the Underlying indexes' allocation to that sector. Funds that emphasize investment in small/mid cap companies will generally experience greater price volatility.

Investing in companies based on social media analytics involves the potential for market manipulation because social media posts may be made with an intent to inflate, or otherwise manipulate, the public perception of a stock or other investment. High positive sentiment may not correlate with positive change in the value of a company's stock and low positive or negative sentiment may not correlate with negative change in the value of a company's stock.

BUZZ Social Media Insights Index identifies the 25 most bullish U.S. stocks based on investment insights derived from the Social Media's Big Data. One cannot invest directly in an index.

ALPS Portfolio Solutions Distributor, Inc. is the Distributor for the Sprott Buzz Social Media Insights ETF.