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#Trend: Trading on Social Media

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By DONNA KARDOS YESALAVICH

Hedge funds and proprietary trading shops are working to automate trading on information and sentiment from the blogosphere and Twitter, an effort that could make social media even more influential.
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Some leading hedge funds and proprietary trading shops are believed to be doing some amount of automated trading on information from social media already. But **Alacra**, an aggregator of data from traditional media and blogs, has a product that could make the practice much easier and more widespread.

Alacra on Tuesday will launch its **PulsePro**, a technology suite geared to help humans make more informed business and trading decisions. Meanwhile, there are half a dozen firms, mostly hedge funds, testing a feed of sentiment ratings generated through the product for automated trading.

"This is part of a larger trend to utilize unstructured content as an input for various types of trading signals," said Paul Rowady, senior analyst at Tabb Group, a financial markets research firm. He said while the trend began primarily with content from news organizations, social media represents "a natural extension of the trend."
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"A lot of these blogs are one-person editorial teams. They don't have the benefits of a 500-person news team fact-checking everything they say, and yet they have this incredible influence on a company's direction," said Ben Cathers, social media manager at Lightspeed Financial, a provider of trading technology and brokerage services.
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"There is a signal-to-noise ratio problem," Rowady said. "There's far more so-called noise on the Web than there would be in a newswire."

Alacra's PulsePro tries to tackle the issue in several ways. First, it only looks at blogs the company deems credible. The blogs are combined with articles from traditional media companies for a total of about 3,000 sources. Rather than trying to codify all the text within each source, it focuses on specific items such as quotes from well-reputed Street analysts and C-level executives. Sentiment ratings are assigned based on the language used.

Through backtesting, **Alacra** has found the ratings generated by its product can lead movements in stock prices by about one to three weeks for large-capitalization stocks. In turn, hedge funds and proprietary traders are interested in the feed despite that it won't work anywhere near the lightning-fast speeds they've been achieving for much of their other computer-based trading.

"Our mandate is to basically create any systematic, automated trading strategy that we think will generate alpha, whether it be through high-frequency market making or lower-frequency fundamental systems," said a quantitative researcher at a hedge fund testing the **PulsePro**.

Alacra, which now generates almost $20 million in annual revenue, ultimately expects **PulsePro** to bring in tens of millions of dollars a year.

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