An Innovative Investment Strategy

Profiting From the Social Buzz on Biotech Stocks

By Ben Benoy, Editor
Greetings, trader:

My name is Ben Benoy, and I’m a U.S. Marine, research scientist and investment strategist. Over the last 10 years, I have been perfecting a revolutionary investing system that combines cutting-edge military technology with the latest innovations in social media.

It’s taken a considerable amount of time and effort, but the results (and the gains) have been even greater than I expected. And now that you’re a subscriber of Biotech Intel Trader, you can join in the profits, too.

Our innovative system is not some untested “black box”… far from it. Instead, it is based on the same techniques used by the Department of Defense (DoD) to forecast terrorist events.

I’m sure you’ve heard plenty of news reports over the last several years about how the DoD gets crucial advance warning of potential terrorist activity by tracking “chatter” on the Internet. Well, this is the same strategy and the same type of technology.

And I should know, because this is what I lived and breathed for four years while serving as deputy director of Marine Corps Base Hawaii’s computer and information systems directorate. While there, I focused mainly on command and control systems that specialized in the collection and flow of information. This data was then analyzed and categorized to enhance our commanders’ critical warfare decision-making abilities.

That’s why I view you, my subscriber, as my commander in this situation. I aim to provide you with the same level of essential, actionable information that I routinely deliver to my superior officers at the DoD.

You are in Charge

My Biotech Intel Trader system and I are here to facilitate and improve your investment decision-making. We do this by gathering thousands of messages from mainstream and social-media sources. Then we take that information and qualify it, categorize it and compile it into actionable investment advice for you.

Even with the massive computing power now available, it would be impractical to do this across the entire equity market. That’s why this service is focused exclusively on biotech stocks. The biotech sector is a highly volatile, so these stocks tend to react quickly to positive and negative information. That makes them perfect for a strategy such as ours.

There is no other sector that offers such rapid and significant returns as biotech. The key is finding the indicators that forecast these market-moving events. And that’s what I’ve done.

As a command and control systems officer in the U.S. Marine Corps, I spent years learning how to gather, process and distribute information. But not just any information… actionable information
that was custom-tailored to the speed, scale and complexity of DoD operations. Anyone can compile mounds of data, but without the perspective that can only be supplied by automated algorithms, it is basically meaningless. What really matters is finding and focusing on the right kind of information.

That's why trading biotech stocks is so similar to war-fighting in the DoD; they both involve rapidly assessing and acting on large volumes of data. In the military, we refer to this as the OODA Loop. Developed by U.S. Air Force Colonel John Boyd, OODA is the decision-making cycle of observe, orient, decide and act. And being able to do that faster than anyone else gives you an unparalleled advantage. Ultimately, the side with the quickest OODA Loop will win the battle or in our case the trade.

And that's where social-media intelligence comes in… It empowers me (and now you) to see key terrain that is being overlooked by the rest of the market. This in turn enables me to make far better trading decisions than anyone else, as proven by my solid track record.

This isn't a new strategy… far from it. The concept of profiting from information that is overlooked is as old as the stock market. But my technique is new.

During the 1970s, iconic investor Kenneth Fisher developed a new way to evaluate a stock's value. He combined an assortment of publicly available financial information to create a new metric called “price-to-sales.”

He used this method of analyzing stocks with great success. But that success did not just reflect what his new metric told him about a stock. It also stemmed from the uniqueness of his method and the fact that the information he used was not easily obtained, even though it was publicly available.

He eventually shared the concept in his 1984 book, Super Stocks, and that's how price-to-sales came to be one of the most popular stock valuation metrics alongside P/E, market cap and EPS.

Ken found success, because he was able to trade on information that other people weren't using, even though the information was publicly available to everyone. And that's exactly what we are doing with Biotech Intel Trader.

We are scanning, analyzing and acting on thousands upon thousands of social-media messages related to the more than 7,000 stocks we track. Just like Ken Fisher did when he made a fortune off of his price-to-sales ratio, we are profiting off of social-media information that is widely available but mostly overlooked.

I'm not talking about reading a popular trader's tweets or keeping an eye on his Facebook wall. I am referring to a macro-level view of the entire social-media landscape, which we create by employing a complex systems engineering framework to roll up hundreds of thousands of social-media messages about each stock.

That's our edge!

We then apply the same tactics, techniques and procedures utilized by the DoD to process this information and act upon it. And when we do, the result is startling...

**Between October 2013 and September 2014, the S&P 500 returned 16.57% while the Dow Jones Industrial Average returned 11.69%. During the same time period, my Biotech Intel Trader system had a return of 61.8% on 112 trades and a win ratio of 82.2%**.
This is not theoretical. This is happening! And now you will experience it for yourself with your new subscription to Biotech Intel Trader.

**The Birth of a Strategy**

In 2009, I began studying the science of forecasting national defense and financial market events by processing social-media messages. While this technique has received a good bit of popular attention since 9/11, much of it has missed the most crucial point: The true value of this analysis lies at the meta-data level.

What do I mean by this?

As I indicated before, this strategy is not about reading social-media messages and then executing a strategy based on what the majority of those messages suggest. It's far more intricate than that.

Consciously or unconsciously, message authors often conceal their true feelings. So how can you determine whether a message is positive or negative?

The answer is: You can’t… at least not at the individual message level. But when a mass of messages is correlated at the meta-data level, valuable patterns can begin to emerge. It’s like when a poker player has a “tell,” except in this case it’s tens or hundreds of thousands of players flashing tells and establishing clearly identifiable indications of sentiment. These indicators can then be used to uncover the sentiment of those individual messages.

A great example of this can be seen in what I like to call the “Mountain Dew” use case. When attempting to forecast cyber attacks and exploitation releases, the DoD looks at the historical social-media landscape surrounding previous attacks. The first reason for doing this is to identify which sources were most active before previous events. This helps the department narrow its search field and intensify data correlation efforts across a smaller subset. Essentially, it can dig deeper into the social-media messages, because there are fewer to search.

Now let’s assume the term Mountain Dew appears in a significant number of messages before three out of four major events. Such a term would never be searched for or found in a traditional wide-open analysis relating to cyber attacks, because it would seemingly have no relevance. But because the search field was narrowed and analyzed more thoroughly, it was found to have some correlation.

We can always come up with a crazy hypothesis about how malware engineers drink a lot of Mountain Dew when they are getting ready for their next big code release, but it doesn’t matter what the reason is. What matters is the discovery of an important data point — a “tell” — that correlates highly with the event in question.

And this is exactly what we do with stock selection. We examine the social-media landscape prior to previous price increases, identify the most active social-media sources during the run-up, then scrutinize them closely to identify those potential tells.

Clearly, one piece of data is not enough to serve as the cornerstone, long-term indicator of an event. However, it can provide important value in identifying the timing of an event, especially when combined with other indicators.

My world revolves around taking these pieces of correlated information and making them add up to an actionable, profitable investment plan.
The Four Key Social Media Indicators

Since any one indicator is not enough to forecast a major market event with any degree of confidence, I developed a superset of four metrics that form the foundation of hundreds of unconventional anomaly detection algorithms. Over the last five years, I have been working furiously to translate the DoD’s “Kill Chain” approach into a winning investment strategy.

The end result of all my blood, sweat and tears is what I like to call the “Four Horsemen,” although, these horsemen will be bringing profits, not the Apocalypse. None of them can stand alone as an effective indicator. However, when they are correlated, they can provide highly accurate investment signals.

The four indicators are:

1. Message Volume
2. Message Sentiment
3. User Reputation
4. Message Manipulation

Message Volume looks at the overall volume of messages being posted about a given topic or key word. When looking at different equities, message volume differs wildly, depending on the available amount of sources and the quality of the content. There is never a magic number or threshold of messages that accurately forecasts a run. We are instead looking for a major shift in the baseline volume of messages that occur on a daily, weekly and monthly basis.

When these shifts occur, the magnitude is measured. Then a value is assigned, based on this indicator’s ability to forecast prior events.

Message Sentiment involves deriving the message author’s buy/sell/hold preference. This can be as simple as identifying an explicit recommendation to buy, sell or hold, or it can mean utilizing complex language processing software to discern a message’s orientation. In either instance, we are taking a systematic approach to label thousands of messages and establish baseline sentiment thresholds. Once these thresholds are identified, we can then monitor them for changes.

Our system continuously calculates sentiment for over 7,000 U.S. equities, utilizing a variety of proven academic and DoD techniques. When message sentiment shifts in a pattern that mirrors previous price movements, an alert is triggered.

User Reputation focuses on taking each author’s social-media messages about a specific stock and treating them as guesses regarding the stock’s direction (i.e., will it go up or down?). If a given message is labeled with a “buy” sentiment, and the price of the stock ultimately goes up, that message is considered a correct guess. After each author’s messages are analyzed in this fashion,
accuracy scores are calculated. These tell us how often each author is correct and help us base our recommendations on the most reliable sources of information.

My analysis over the past five years has shown that less than 6% of social-media message authors can correctly predict the movement of a security with at least 80% accuracy over the course of four weeks. This enables us to ride the momentum waves that naturally occur as information sources rise and fall in terms of accuracy. Basically, we are capitalizing on authors that are on a hot streak, and we are discounting authors that are on a cold streak.

**Message Manipulation** helps gauge the strength of the messages collected on a specific stock. For example, it is better to have 1,000 messages from 1,000 different users than to have 1,000 messages from 10 users. In the first instance, those 1,000 messages would be more indicative of the true market, because they reflect a wider assortment of authors. Conversely, large volume of messages from a small group of authors would be a strong indication of manipulation.

To prevent such manipulation, we work diligently to identify authors who pump-and-dump stocks, so we can discount their messages.

**Putting It All Together**

In today’s uncertain market environment, it’s more important than ever to follow a sound investment system. You’ve heard Harry Dent say this time and time again, and he’s right.

That’s one of the reasons I developed this strategy. I work with proven decision-support systems every day at the DoD, so I know just how powerful they can be. And if a system like that could perform as needed when the stakes are as serious as life and death, I know it’s an idea that I can trust with my investments. And you can, too.

So here’s how it’ll work…

Every Monday, you’ll receive an email alert from me that looks something like the sample on the next page.

While most weeks will have a trade, our system cannot guarantee that there will always be one. We need to wait for the appropriate signals, because that’s the essence of systematic trading. We don’t trade for the sake of trading. We only do it when we have a reasonable probability of success.

With this strategy, we’ll be buying long positions as well as puts and calls. All in all, you can expect two to three trades per month. Some months it’ll be more, and some will be less, but that’s about the average.

On weeks when there is a trade, you’ll see a bolded line that begins: “Action to take…” This will contain all the necessary information for each trade. And to make it simple, I’ll write these lines in such a fashion that you can just read them directly to your broker when you’re ready to make the trade.

Crunching the numbers on a very conservative performance estimate, I anticipate a total portfolio return in the healthy double digits over 12 months. This is based on a balanced portfolio approach, with no more than 20% allocated to any one holding.
Trade Alert – Buy Idera Pharmaceuticals

Greetings, traders:

It’s a beautiful, blue-sky morning here in Atlanta, and our proprietary Chatter Indicator is flashing a “buy” signal. That means there’s a profit potential in the air.

It reminds me of sitting in a Department of Defense Command Operations Center when our unconventional “chatter” indicators would start forecasting enemy activity.

But now my indicators are signaling a trade on Idera Pharmaceuticals, a Cambridge, Massachusetts-based, clinical-stage, biotech company focused on producing drugs to treat certain rare types of cancerous tumors and autoimmune diseases. The company’s lead candidate treatment has already performed well in Phase Two clinical trials with an autoimmune disease and as a cancer therapy.

Nonetheless, the stock has suffered a substantial price drop in the last six months – but my Chatter Indicator strongly suggests that it’s about to pop!

**Actions to take:** buy Idera Pharmaceuticals, Inc. (Nasdaq: IDRA) between $2.50 and $2.70 and set a stop loss at 10% under your buy-in price.

Earlier today, the rolling five-day chatter volume on Idera climbed a solid 20% and “buy” sentiment is extremely strong.

That means it’s time to pounce.

Over the past two months, there has been a marked increase in the volume of social media message chatter concerning Idera. At the same time, there’s been a major shift in sentiment. This groundswell of activity strongly suggests that a major market event for Idera is about to unfold.

These unconventional indicators and warnings are exactly the kind of catalysts we look for in the Department of Defense. Major “chatter” increases, coupled with shifts in message sentiment, always presaged a paramount event.

In the last five months, the only significant mainstream activity concerning Idera has been the company’s second quarter earnings release and three media mentions. Yet of the more than 7,000 stocks we scan, Idera ranks fourth in terms of Accelerating Positive Sentiment. Simply put, that
means lots of people are saying lots of good things about Idera but is just hasn’t reached the mainstream media yet.

And it comes at a time when Idera, which is currently trading around $2.60, is well below its six-month high of more than $6.50. (See chart below.)

During back-testing, the system triggered 11 alerts (also shown in the chart below), all of which would have produced significant gains.

All the signs are pointing toward another winning bet on Idera. We’ve got the chatter, the sentiment and the historical stock price all flashing “buy” – so now is the time.

I conservatively estimate a 10% to 15% price increase over the next month to month and a half. Once that threshold is met, I suggest setting a trailing stop-loss order at 5%, so you can lock in gains as Idera climbs.

Happy Hunting,

Ben
Check in With Your Broker

It’s likely you already have a brokerage account, possibly even one that you currently use to trade stock options. But if you don’t have your account established, I’m providing a list of brokers you can look into. While we have no relationships with any of these brokers, they allow options trading on stocks and ETFs from a common brokerage account.

Even if you already have your account established, I’d recommend calling your broker and confirming that it’s set up to trade options. You may need to fill out a one-or-two-page form indicating what options strategies you’d like to trade. I will only recommend basic options strategies: buying calls or buying puts.

Broker Contact Information:

TD Ameritrade www.tdameritrade.com 1-800-454-9272
Interactive Brokers www.interactivebrokers.com 1-877-442-2757
Charles Schwab www.schwab.com 1-800-435-4000
Fidelity www.fidelity.com 1-800-343-3548
E*Trade www.etrade.com 1-877-921-2434
OptionsXpress www.optionsxpress.com 1-888-280-8020
EverTrade www.evertrade.com 1-866-653-8025

And that’s all you need to do! So thank you for joining me as we systematically pick apart the market, utilizing the latest DoD tactics, techniques and procedures for exploiting social-media data.

Happy Hunting,

Ben
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