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Hedge funds are overhauling the way they use alt data as even quants are being forced to think like macro investors

Bradley Saacks 2 hours ago



Hedge funds are rethinking their use of alternative data. Shayanne Gal/Business Insider

- **Alternative data is an increasingly important part of hedge funds' investment processes, but the pandemic has changed the way firms use the info.**
- **Traditionally, quants and long-term stock-pickers use data to compare companies against each other, to find a winner in a certain field.**
- **The virus, however, has the entire world waiting on a restart — and it has turned just about every money manager into a macro investor, constantly thinking about the big picture.**
- **"Everybody's a macro trader now," says Abraham Thomas, chief data officer at Nasdaq's Quandl.**
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At the beginning of the pandemic, the market fell with each new update on infection numbers — and alternative data firms [were quick to roll out](#) new indices and markers to track the virus.

But the markets have become steadily disconnected with the virus, as the S&P 500 has nearly climbed to the heights it hit in February, and hedge funds trying to make sense of it all have had to rethink the way they use their alt data.

For starters, tracking the virus and trying to correlate it to the markets "wasn't working," said Zak Selbert, founder of Indexica, which uses natural-language processing software to create indices around specific emotions based on news stories.

"I think that shift from tangible to feelings has happened," Selbert said about the markets' reaction to the virus. His firm found that the general public has been steadily consuming less news about the virus, meaning the drivers of the economy — consumers — weren't hanging on every new data point from officials about the spread



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...ing on every new data point from emails about the spread.

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This means the traditional way of using alternative data — to find winners and losers in a certain field before others do — wasn't going to work, said Abraham Thomas, chief data officer of Nasdaq's Quandl.

"Historically, most the users of alternative data use it to compare one company to another — the reality of 2020 is investors don't really care about that," he said.

"Everybody is much more interested in the big picture."

Auto sales, tracked through new insurance policies processed, is an example of a dataset that's being reimagined. It used to be a way for portfolio managers to see if GM was outperforming Ford. Now, it's used to get a gauge on consumer sentiment on the economy.

"It's no longer about picking the right stock, it's about picking the right time to buy every stock," Thomas said.

"Everybody's a macro trader now."

Macro funds, after years of underperformance thanks to low interest rates and nonexistent market volatility, have come roaring back thanks to the pandemic, with managers like Brevan Howard [enjoying the spoils](#).

See more: [Goldman Sachs quants overseeing \\$200 billion rolled out a new model for handling COVID-19 risk way back in January. 2 exec walked us through how it works, and how they've fine-tuned it amid market madness.](#)

The key is to keep things simple, according to Daryl Smith, head of research for Neudata, a London-based data platform.

Take, for example the "geolocation renaissance." This data uses footfall traffic from cell phones to show how many people are in public areas at certain times, and for how long.

Prior to the pandemic, geolocation data feeds were trying to nail down specific buying patterns and how they related to certain brands. Now, it's used just to see if people are coming back and shopping again.

"The use cases have become a hell of a lot more simplistic," Smith said.

"The data that are in vogue at the moment are those with the most simplistic use cases."

Read more:

[Credit-card data is broken. Here's how hedge funds and banks are being forced to rethink one of the earliest alt-data plays.](#)

[Web traffic data shows the biggest winners and losers across 11 different industries during the pandemic: Interest in Chipotle soared while Gucci traffic sank](#)

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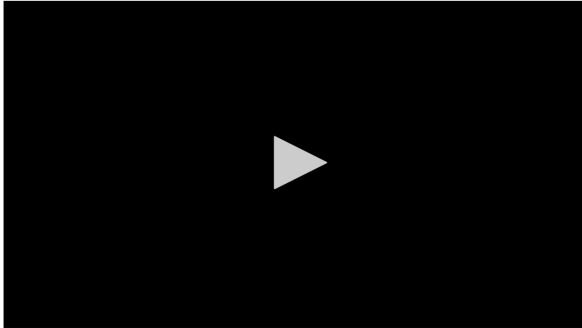
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