

PIECING TOGETHER THE DIGITAL MOSAIC

BY JASON GOLZ, BRUNSWICK, SAN FRANCISCO

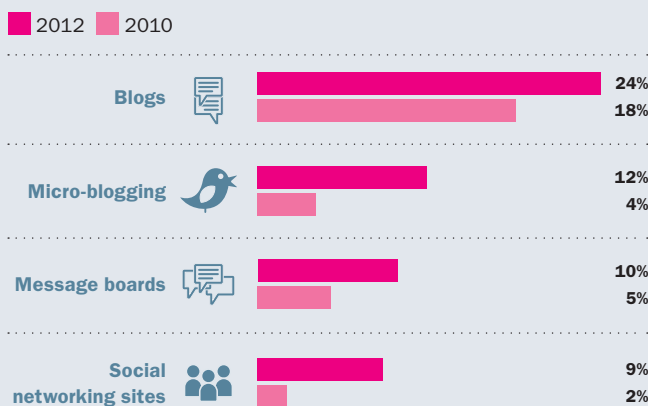
For analysts and investors, making investment decisions involves gathering many disparate pieces of information and assembling these nuggets into a mosaic that ultimately guides their choices. While the influence of digital and social media on investment decisions still ranks below that of more traditional key factors, such as one-on-one meetings with management and analyst research, digital media is rapidly becoming an entrenched part of the mosaic.

In Brunswick's first investor survey in 2009, one respondent captured the consensus view, saying "Using new media isn't worth my time to derive what would be the 50th data point of incremental value." This is no longer the consensus view. Social media is rapidly coming of age in the investment community.

In October 2010 an associate professor from Indiana University discovered a tight correlation between stock market sentiment on Twitter and stock price returns. Fast-forward one year: Derwent Capital Management, a small hedge fund opens its doors with the goal of gaining an edge and beating the market by basing its investment strategy on this finding.

The strategy worked. In fact, it yielded returns significant and consistent enough that the firm decided to pivot its business model to pursue a bigger opportunity. Instead of running and marketing a hedge fund, its founders created a stock trading platform, complete with sentiment-based research tools.

DIGITAL MEDIA DRIVING INVESTMENT DECISIONS



As investors increasingly read and post investment information on digital and social media platforms, these outlets are playing a larger role in driving investment decisions

KEY SOCIAL MEDIA FINDINGS INCLUDE:

14 PERCENT of participants included digital and social media among their top three most influential sources, up from 6 percent two years ago.

86 PERCENT of investors say digital sources have become more important this year, with investors in Asia leading the charge.

25 PERCENT of those surveyed said that they had made an investment decision or recommendation after initially reading a blog.

Brunswick Group conducted its third survey of the global investment community to gauge the influence and impact of digital and social media on stock recommendations and investment decisions. The online survey of sell-side equity analysts and buy-side institutional investors, conducted between October 10 and November 4, 2012 across the US, Europe and Asia, included 476 participants widely distributed across geography, industry sector and age group.

BRUNSWICK

INSIGHT

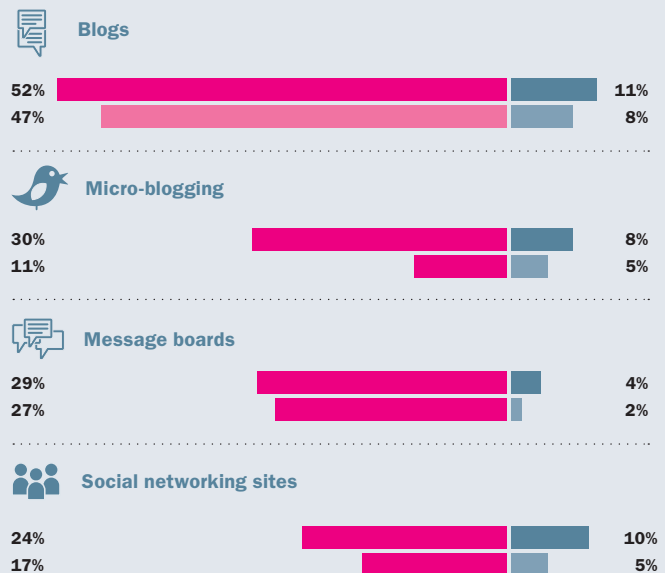
Today, investors and analysts are probing new ways to use, engage in, and profit from digital media – especially Twitter. Bloomberg has integrated Twitter into its platform and several investor conferences now cater to investors who use Twitter sentiment as a factor in stock selection and asset allocation decisions. Other digital and social channels are growing too, such as investor blogs like Seeking Alpha, presentations on SlideShare and profiles on Wikipedia.

Company initiatives to create and deliver social media content, which for the past several years have been ahead of the curve, may soon trail investor demand for such content. The SEC’s recent decision allowing companies to release market moving information over social media channels – provided they have alerted investors to this possibility – may have further opened the floodgates.

Companies wishing to take advantage of the emerging influence of social media on investment decisions should be familiar with the legal and regulatory constraints for staff and spokespeople, identify online opinion-leaders, monitor influential commentators and optimize all content for search, sharing and mobile devices. And while investors and analysts are increasingly influenced by digital media as a factor in making investment decisions, a majority still looks to companies themselves to be the mosaic’s centerpiece.

A NEW TWO-WAY DIALOGUE EMERGING

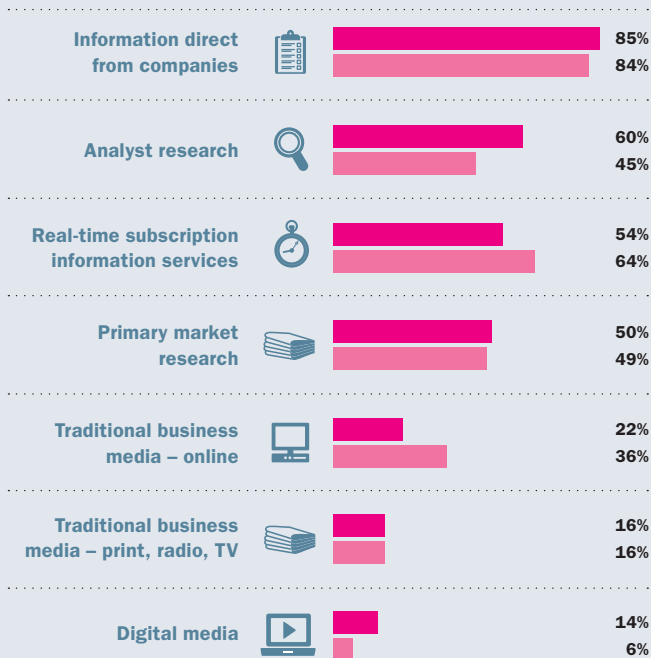
■ 2012 Reading ■ 2010 Reading ■ 2012 Posting ■ 2010 Posting



Not only are investors consuming more information over digital channels, but they are increasingly contributing investment information on social media platforms

TOP THREE INFORMATION SOURCES FOR INVESTORS

■ 2012 ■ 2010



Traditional information sources (direct company communications, analyst research and real-time subscription services) still dominate when it comes to influencing investor decisions, but digital media is growing in importance

SEC SOCIAL MEDIA GUIDANCE

The SEC recently decided that companies could use social media as a channel to disclose material non-public information, so long as they give proper notice to investors, telling them where to go to find this important company news. As part of the agency's guidance, it said:

- Regulation Fair Disclosure – requiring equal access to market sensitive information – applies to social media. Investors still must be able to gain access to material information at the same time as everybody else.
- Corporate, not personal, social media channels are preferred. The SEC's report explains that the personal social media site of an individual corporate officer would be a non-standard and likely unacceptable way to disclose material, non-public information. Nevertheless, the agency acknowledges that each situation is different. Flexibility exists as long as advance notice is given to investors that a personal social media channel may be used for disclosure.

Conclusion

To reach the broadest audience of stakeholders, companies can supplement press releases that they issue via traditional means with simultaneous posts on corporate websites and social media channels. This is an established best practice. For example, after issuing important news via a wire service, the news can then be posted on the relevant section of the company's website; with a summary on the news feeds of the company's Facebook and LinkedIn pages; and tweets of the headline with a link back to the full news article on the website.

In order to reach the broadest possible audience, it is not advisable for a company to disclose material news using social media channels alone. In addition, it is important to remember that not all investors and analysts are permitted access to social media sites by their employers, although this has already begun to change. 🗣️

Jason Golz is a Partner in Brunswick's San Francisco office. He advises on IPOs, investor relations and M&A.