



Mining for Meaning – How Text Analytics and Sentiment Analysis Will Redefine the Capital Markets

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**PAUL ROWADY -
“INNER VOICES”**

The dramatic growth of Crowdfunding across all platforms (Donation, Reward, Peer-to-Peer, and Equity) has been breathtaking. Headlines of Lending Club and Prosper (Peer-to-Peer Lending) crossing \$5 billion in originations, Kickstarter surpassing \$1 billion in reward-based Crowdfunding, and those who will certainly go to heaven (our donation/micro-finance based brethren, Kiva) are dominating the news wires reflecting a drastic transformation of the capital markets.

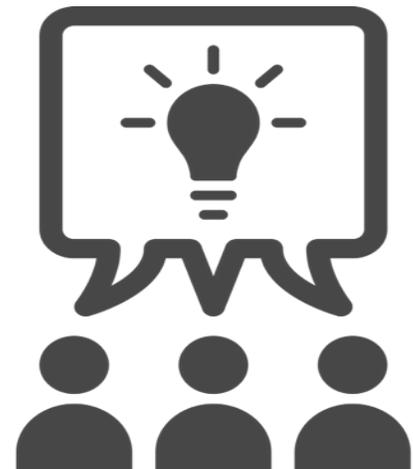
Why such traction? Because Crowdfunding is about increasing data efficiencies and the capital markets are in dire need of it. Technology, long a harbinger of lowering cost structures and disrupting the status quo, has catapulted into the financial market fray via a channel called Crowdfunding. Incumbents (i.e. Venture Capital, Angel Groups) are faced with the rise of alternative funding platforms tapping directly into their traditional capital sources, Accredited Investors. In essence Limited Partners, who make up the bulk of Venture Capital funding, are pools of Accredited investors who are willing to pay high fees for access to deal flow and oversight of these investments. Increasingly, Accredited investors are seeking access to the same premium deal flow without the costs associated with “2” and “20” structures, and Crowdfunding is providing that avenue.

Within this wave of innovation resides an engine fueling capital market efficiencies similar to the proliferation/impact of decimalized trading in the public markets, and it’s called “Text Analytics.” This term, often used in concert with “Data Mining,” refers to leveraging technology to identify patterns in unstructured content (i.e. social media), measuring the meaning behind data (contextualization/sentiment analysis), and making the data productive via tagging/matching (i.e. buyer investment preferences to deal flow).

Now think about Crowdfunding and Big Data for a moment. Crowdfunding has the potential to generate volumes of data given millions of

Accredited investors under Title II of the JOBS Act (let’s focus here given Title III of the JOBS Act has not passed) will join Crowdfunding portals to earn more interest (i.e. P2P), pay lower fee structures associated with venture investing (i.e. Equity Crowdfunding), ensure more of their capital goes directly to those in need (i.e. Donation Crowdfunding) vs. to C-Level executives at charities and their six-figure salaries, and/or pre-pay for innovative products from promising emerging growth companies facing difficulties raising capital from traditional capital sources (i.e. Venture). Assuming Crowdfunding meets these data “fire hose” predictions, can you think of a better platform for applying the disciplines of Text Analytics than Crowdfunding?!!

By its very nature Crowdfunding defines the potential of Big Data given those participating in such platforms rely on building social networks to identify investment opportunities, conduct due diligence, and keep informed of investments over time; all generating massive amounts of sentiment data or indications of positive, negative, or neutral feelings towards a particular topic. By tagging this data (i.e. Metadata) and applying scoring algorithms, Crowdfunding platforms generate guidepost for investment decisions.



One only needs to assess the impact of tagging data and its impact on increasing the efficiencies of our every-day lives including dating site (i.e Match.com), eCommerce platforms (i.e. eBay), and social media sites (i.e. Facebook and Twitter) to gauge the potential impact of Crowdfunding in the financial markets.

As Paul Rowady, Analyst – TABB Group, eloquently stated in a white paper called “Inner Voices: Harvesting Text Analytics from Proprietary Data,” the “functionality to securely ingest any unstructured data, perform any filtering routine, configure the right output, and scale to enterprise needs is converging quickly.” Personalization of data or “getting the right information to the right person in the right place at the right time and in the right format” will be the future of the capital markets and Crowdfunding will play a major role in that transformation. No longer will information/data be held captured by the establishment but will flow freely to and between the Crowd.

One of the primary tools of data personalization is “Sentiment Analysis” or the extraction of user sentiment or tone with regard to the content’s subject matter. The public markets are rife with sentiment analysis as reflected by the number of analysts following and writing research along with the investors

who rely on the polarity of the given text/ recommendations (+, -, neutral or buy, sell, hold). Like Facebook, Crowdfunding has the user engagement and quantification tools (i.e. “Liking” “Following”) to assess the sentiment of the Crowd as it pertains to investment opportunities. In effect, this is **Crowdsourcing meets Crowdfunding**. It is at this interface where the power of the network effect (the more people who use a given platform the more want to join, and the more valuable the tool i.e. LinkedIn) supercharges sentiment analysis analytics and its power to influence investment behavior.

As Paul Rowady states again in “Inner Voices”: “Highly catalytic news and events.....are increasingly benefitting from improvements in the quality of filtering, contextualizing, and sentiment scoring that text analytics are now bringing to the table.”

Actionable intelligence is here and Crowdfunding portals will be the repositories of this data since they provides the interface for data input (millions of users providing their sentiments), processing (ability to tag data using XML etc.) including classification/extraction of said data, and publishing including visualization tools. There is no doubt that decision support tools such as sentiment analysis will be the future of Crowd investing. **Join the movement!**

Why is sentiment analysis important enough to cover in this paper?

It has the potential to assist investors with making better decisions leading to higher investment returns and subsequently more capital reinvested in the space. Crowdfunding portals will be at the epicenter of sentiment analysis because it provides the:

- Tools wherein investors can assess investment decisions in real-time based on the Crowd identifying and scoring (via their words) company catalysts impacting the probability of wealth generation or destruction
- Ability to easily quantify Crowd “Sentiments” by comparing and contrasting “Liking” and “Follower” rates among various companies
- Social connections to continue assessing investment decision by leveraging the wisdom of the aggregate

For More Information, Contact:

Scott Jordan

tel.: 312-451-6210

scott@sjordanassociates.com

 S. Jordan Associates