

Case Study

Gold & Silver – Major Cycle Alignment in Place

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ABSTRACT / EXECUTIVE SUMMARY

The current analysis of social media sentiment cycles suggests an imminent turnaround in Gold and Silver futures from a bear market to bull market, beginning in Q4 and proceeding into the end of the year. By analyzing both the current trader sentiment and historic price cycle data via proprietary embedded cycle algorithms, an alignment of price and sentiment cycles has been identified.

INTRODUCTION

In recent years, social media has become ubiquitous and important for social networking and online communication among market participants for stock market news.

According to many behavioral economics' studies, mood can profoundly affect individual behavior and decision-making¹. Mood predisposes people toward certain decision-making processes, and crowd mood can cause events and trends to occur. The ability to find and quantify the underlying mood trends can enable the informed trader the probability of trade direction in advance of news events. Positive or negative underlying crowd mood can trigger the buying, or selling of stocks.

Public sentiment ebbs and flows over time as a function of the general public's disposition and can be analyzed and quantified as a result. The challenge and objective for this study is to analyze sentiment and price data for purposes of discovering underlying cycles, in order to make forecasts and predictions based on historical and current data. The successful analysis of said data

can arm the sophisticated trader with foresight into the progression and turns of the overall sentiment / mood cycle, and market turns as a result.

Sentiment information can be a very useful tool for trading professionals. Historically, professional traders would listen to the activity on the market floor through a series of microphones and desktop speakers known as "Squawk-Boxes" to "feel the mood", and anticipate turns in the market's direction based upon the tone and activity level on the trading floors. However, due to the advent of electronic and computer trading methodologies, the market floors have largely moved from people shouting at each other on the market floor, to datacenters with automated trading strategies and execution platforms. This has rendered the trading desks unable to listen to the "mood of the market," thereby eliminating a crucial piece of data from trading desks worldwide.

At the same time as the markets were moving from human-based to electronic-based trading activity, social media and internet chatrooms have been undergoing rapid growth. The financial market conversations which used to happen on the trading floors, are now happening online, thanks to

¹ LAI Kaisheng, CHEN Hao, YUE Guoan: Can Mood Predict Stock Market?[J]. Advances in Psychological Science, 2014, 22(11): 1770-1781.

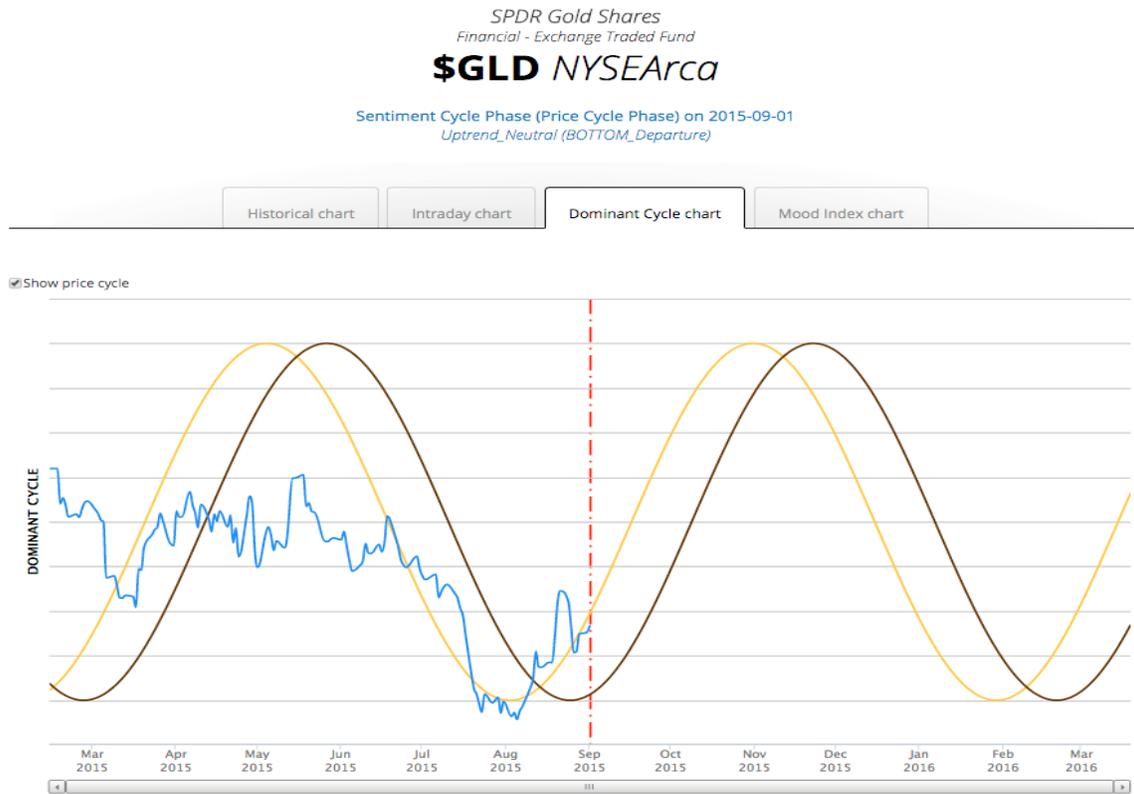


Figure 1. SPDR Gold Shares ETF \$GLD. Trader Sentiment Cycle (yellow line), Price Cycle (brown line) and observed price data (blue line).

websites like Twitter, StockTwits and private chatrooms.

Consequently, the team at PsychSignal created a way to mine the data sets from these online providers, in order to restore the lost connection between the trading floor, markets and traders. They call their product the “Next-Generation robotic Squawk-Box”, or “SquawkrBOT” for short. The product acts in the same way that Squawk-Boxes used to connect trading pits to trading floors, but brings the concept to the 21st century by connecting social media datacenters and trading datacenters to trading floors by complex datamining and language processing algorithms instead of microphones and speakers.

The PsychSignal SquawkrBOT operates by using a natural language processing engine employing a linguistic approach, in order to mine raw social “mood” information related to financial assets. It does this to learn how the financial trading public

feels about specific securities. In this study, we combine that data, mined from a combination of StockTwits and Twitter data with the WhenToTrade cyclical pricing analysis tools, in order to decipher and track the dominant cycles for both live and historical price and sentiment data, going back to 2011. With the pair of tools working in tandem, we have created the ability to predict and forecast financial market turns in advance as a result of historical cycle analysis.

STUDY

The study used sentiment and price cycle discovery algorithms to investigate the current market conditions, in context to historic data. The objective was to investigate how social media sentiment can be used to predict financial cycles. In particular, the study’s intent was to analyze how social chatter, pre-processed from PsychSignal, can be used to forecast market turns in Gold & Silver.

iShares Silver Trust
 Financial - Exchange Traded Fund
\$SLV NYSEArca

Sentiment Cycle Phase (Price Cycle Phase) on 2015-09-01
 Uptrend_Neutral (BOTTOM_Departure)

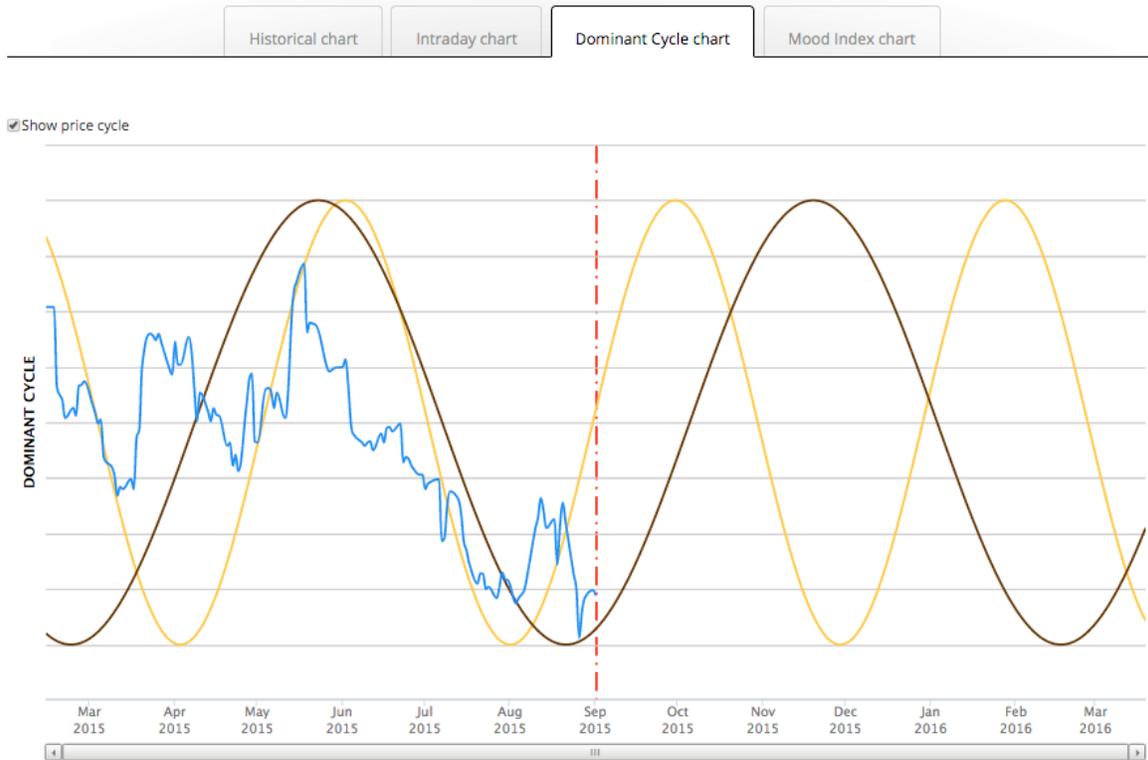


Figure 2. The iShares Silver Trust \$SLV. Trader Sentiment Cycle (yellow line, Price Cycle (brown line) and observed price (blue line)

The algorithms were applied in order to discover the underlying sentiment and price data cycles, and generate forward-looking cycle predictions based upon those historic cycle results. The detected cycles are presented as a dominant price cycle (brown line) and sentiment cycle (yellow line).

FINDINGS

The algorithms have detected an alignment between both sentiment and price cycles bottoming out on Aug 27, 2015 with an upward projection through September and October, reaching a peak by the end of November, which then reverses direction towards the end of the year.

Situations like these, where both cycles are in alignment, coupled with our internal alerting threshold levels can pinpoint important market situations.

The following charts show a more detailed dominant cycle analysis on the price chart for Gold to confirm the detected sentiment cycle alignment.

The daily chart on the left side shows a detected cycle length of 160 days in the lower panel, which is exactly in sync with the bottoms and tops of the futures price.



Figure 3. Gold Futures Raw Cycle Analysis 2011 - 2015 for \$GLD. www.whentotrade.com

Another dominant cycle on the weekly chart is also in alignment with the projected cycle low in the futures.

So we have an alignment of the sentiment cycle with the current price cycles on daily and weekly timeframe.

CONCLUSION

According to the cycle alignment, the forecast is indicating that a bull cycle for the gold sector is positioned to start in the beginning of September, 2015. Such cycle alignment on sentiment, price,

daily and weekly charts happening at the same time is usually indicative of a strong signal with high probability of realization. According to the study, the current cycle position situation indicates that \$GLD is currently at a bear-market bottom, and is likely to see upward price and sentiment pressure into the November period.

As we deal and follow a real dynamic behavior of cycles, the situation is subject to change and will be updated daily on our website.