

# POLICYSCOPE DATA BACKTEST RESULTS

## CRYPTOCURRENCY CASE STUDY

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BCMstrategy, Inc.

## ABOUT BCMSTRATEGY, INC.

BCMstrategy, Inc. helps investors detect, measure, and manage systematic risks associated with public policy. The company quantifies public policy risks using 9+ layers of patented analytical automation without using sentiment analysis. PolicyScope™ data has been mapped to 300+ economic sectors and 9 asset class types.

PolicyScope™ data is available to institution investors in three formats.

- The complete dataset is available to institutional investors exclusively through the Bloomberg Enterprise Access Point (<https://eap.bloomberg.com/catalogs/bbg/products/BCMStrategiesPolicyScopeEdition1>).
- Customized single-issue dashboards and signals from BCMstrategy, Inc. can be accessed through APIs or on the web.
- Coming Soon: An app for the Bloomberg Terminal will be available during 4Q2021.

BCMstrategy, Inc. is the sole author of this report. BCMstrategy, Inc. contributed correlations interpretation and the content of this report as well as sample quantitative PolicyScope™ data generated by the patented process. All errors, omissions, oversights, and mistakes remain the sole responsibility of BCMstrategy, Inc.

## ABOUT INVISAGEALPHA

InvisageAlpha is a data analytics platform that helps investors use alternative data to generate performance. InvisageAlpha uses a proprietary machine learning engine that extracts investment signals and ideas from any form of data or narrative content. Their platform provides a set of tools to integrate signals into the investor process to drive performance and reduce risk.

InvisageAlpha is owned by AltHub, the leading provider of modelling, sales enablement tools, and business development solutions for the Alt Data Market.

InvisageAlpha contributed backtesting services and mathematical correlations analysis regarding PolicyScope™ data.

**Background:** PolicyScope™ data quantifies public policy risk using 9+ layers of patented analytical automation. Investors use it to detect, measure, and manage systematic risks related to public policy volatility.

With two years of data (2019-2020) now in the database, BCMstrategy, Inc. and InvisageAlpha partnered to conduct backtests of selected quantitative data related to specific lexicon terms. The results show a clear advance correlation between PolicyScope™ data and market volatility in relation to both the S&P and the VIX.

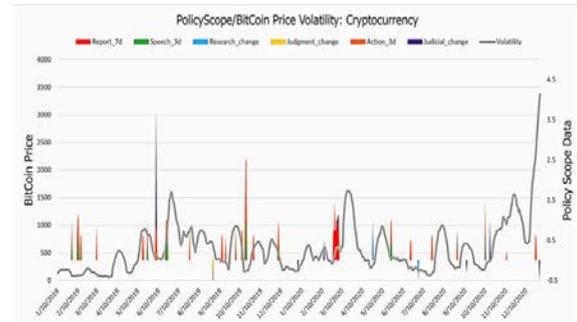
Data generated by the “cryptocurrency” term was tested against BitCoin historical prices for the same period to determine whether PolicyScope™ data generated leading signals of price volatility.

*Our backtest shows that a targeted lexicon term can provide advance notice of market volatility against a specific paired asset.* Specifically, a strong, consistent relationship exists between public policy activity regarding cryptocurrency policy *in advance of* BitCoin price moves.

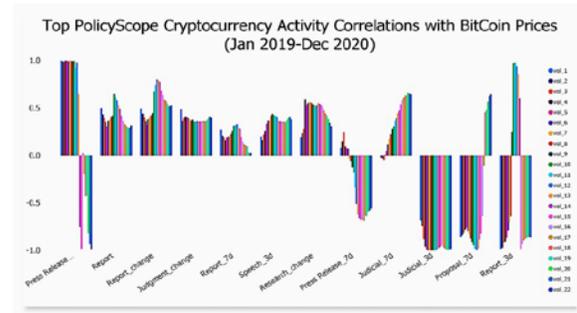
This Case Study delivers data and analysis regarding the observed relationships between PolicyScope™ data for the term “cryptocurrency” and BitCoin prices.

**Overview:** The cryptocurrency backtest results provide a particularly clear picture of the reaction function related to specific activity types. The reason why is clear: BitCoin prices may be more sensitive to public policy shifts since all cryptocurrency and BitCoin market participants are uniquely

exposed to the risk of massive increases in regulatory oversight in the near future.



Twelve distinct types of official sector activity generated strong correlations against BitCoin prices. These included activity at the 3-day rolling average and the 7-day rolling average as well as the daily change values:

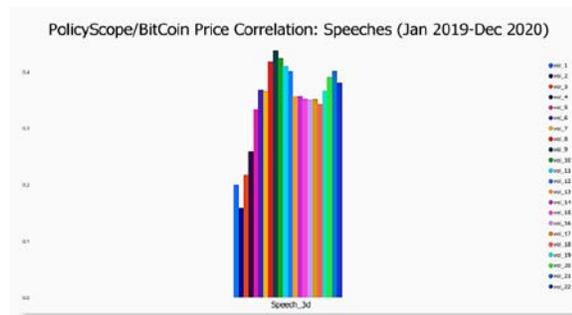


**Detailed Backtest Results:** Unsurprisingly, press releases show a high and immediate correlation which drops off quickly as new information is absorbed:

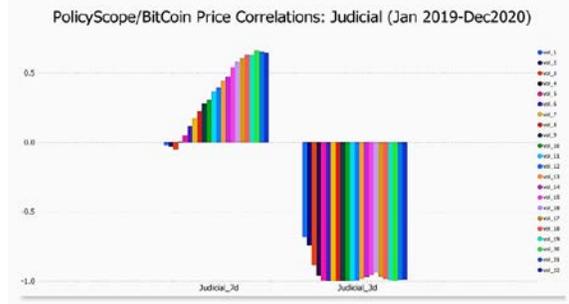


Speeches seem to have a longer impact, but they take marginally longer to correlate with volatility. Consider the 3-day moving average which shows moderate to low activity initially.

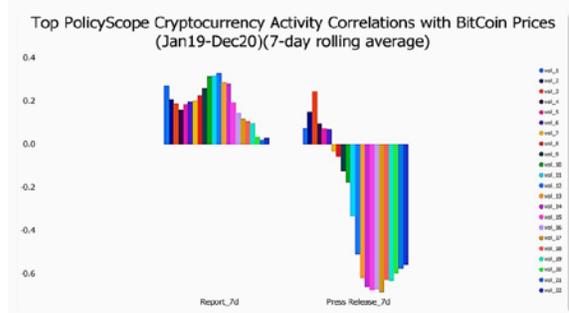
The steady near-doubling of correlations over a handful of periods illustrates visually the process by which industry analysts and media outlets start discussing the implications of an official sector speech and markets start to reprice accordingly.



The converse is true for judicial activity in the cryptocurrency context. The U.S. Securities and Exchange Commission was particularly active in generating enforcement actions against cryptocurrency issues during 2019-2020. As the correlations analysis below illustrates, the relative lack of media coverage for these activities (the 3-day rolling average) does not register in the markets. But as information about enforcement actions trickles into the market and the full implications of the latest move are understood, market prices adjust accordingly:



Report issuance has its own, separate dynamic in the cryptocurrency context. Reports tend to be highly technical and conceptual in nature. They do not generate much media coverage. They also do not represent imminent shifts in regulatory requirements. But they can generate passing attention. The correlation analysis for the 3-day moving average illustrates this dynamic well:



The 7-day moving average, while less dramatic, illustrates the parallel longer term impact of the policy reaction function in which report issuance literally changes the conversation about public policy priorities, permitting markets to adjust.

*The correlations are striking not for their size but for the fact that they exist at all because the market is not yet systematically pricing against these early indicators of policy action. Seeing any correlations at the 30% to 60% level for non-final activity (e.g., speeches,*

*meetings, proposals, etc.) provides a window into the alpha capture some market participants are achieving through old-fashioned human intelligence and expert opinion.*

PolicyScope™ data makes that alpha capture available to a wider universe of portfolio managers. Our patented data generation mechanism automatically finds, surfaces, and quantifies the early activity...and makes it accessible to portfolio managers through the prism that matters to them: economic sector.

The detailed analysis of the cryptocurrency/Bitcoin correlations illustrates the kind of analysis that can be conducted using PolicyScope™ data across asset classes and economic sectors. The strong correlations discovered in this first backtest against large market aggregates like the S&P and the VIX suggests strongly that additional single-issue correlations may exist.

PolicyScope™ data currently covers all these issues, and more. The digital currency lexicon alone encompasses over 120 technical policy-related terms relevant to both private and sovereign digital currency issuers. The automated process captures and measures global activity regarding those terms on a daily basis, delivering time series data to users. The time series data for one of those terms ("cryptocurrency") is the subject of this backtest.

Our two years of data regarding cryptocurrency policy provides a starting point for the kind of correlations and analysis that are now possible for strategists and portfolio managers seeking a more

objective, reliable, and consistent mechanism for measuring exposure to public policy shifts at precisely the moment when rules are changing.

But Bitcoin is not the only asset in capital markets sensitive to macropolicy risks.

- Equity and fixed income instruments issued by companies in highly regulated industries operate with cost structures that are highly sensitive to small shifts in public policy.
- Equity and fixed income issuers in the manufacturing and farming sectors (and their underwriters in the financial sector) will be highly impacted by shifts in disclosure standards with respect to climate-related risks.
- Currencies and fixed income instruments issued by sovereigns will also be highly impacted by shifts in climate-related disclosure standards as well as monetary policy and digital currency policy.

PolicyScope™ data covers all these issues and more. We look forward to helping investors minimize their exposure to systematic risks generated by the public policy process. No sector is more exposed than the cryptocurrency sector, however.