

Test your knowledge of LO 9.5.1

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 Quiz 9.5.1
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1. Is the following definition about **Alternative data** generally correct?

Definition:
 "Alternative data are datasets that are not conventionally used in investment decision-making. "

- Not correct
- Correct

2. Which of these is NOT a typical example of **alternative data**?

- I) Satellite images
- II) Microdata on consumer shopping activities
- III) Daily Treasury Yield Curve Rates
- IV) Data scraped from the Internet
- V) Social media channels

- I
- II
- III
- IV
- V

3. Which of these is NOT a commonly used types of **alternative data**?

- I) Satellite images
- II) Social media comments/sentiments
- III) Purchase transactions
- IV) Trade volumes
- V) Website visitors

- I
- II
- III
- IV
- V

4. Henry, executive vice president of an institutional investment firm, has just told his boss about the possibility of using alt data. Does Henry's following statement correctly express the point of view of the reading about the core value proposition of using alt data?

Statement:
 " Since institutional investors have longer operating horizons than short-term investors seeking to exploit alt-data to gain an immediate competitive advantage, they can pursue investment strategies that are more geared to defensive (less aggressive) and defensible approaches to alt-data. Therefore, institutional investors should use alt-data with a **non-rivalrous** approach (i.e. not aimed at competing, such as the screening of public equity based on sustainability criteria for the underlying companies) or for **excludable activities** (i.e. activities that others cannot easily replicate, such as access to a spin-off alt-data due to ownership rights)."

- No, it doesn't
- Yes, it does

5. Which of these is an **advantage that institutional investors may have in using alternative data**?

- I) Capacity to develop speed-oriented strategies
- II) Agility
- III) Patience

- I
- II
- III

6. Is this statement about **defensive strategies for institutional investors** generally correct?

Statement:
 "Unlike rush-to-use alt-data opportunities for risky gains, **defensive strategies** focus on capital preservation and prudent risk-taking. Therefore, **defensive strategies** based on alt-data should focus on advanced risk analysis and management or improving operating efficiency."

- Not correct
- Correct

7. Does the following statement correctly describe **defensible strategies for institutional investors**?

Statement:
 "Institutional investors can use defensible alt-data strategies to
 – increase the excludability of an alt-data set by either limiting access to it (e.g. by making it proprietary)
 – establish execution capabilities that are not replicable by other market participants (e.g. by privileged access to infrastructure deals through special relationships with local governments)".

- Not correct
- Correct

8. Which of these is NOT a typical example of the defense use of alt-data to understand risk?

- I) Understanding the strength or weakness of a fund manager's networks can be a crucial variable in deciding whether an investor should allocate capital to that manager.
- II) Run a due diligence on an alt-dataset aimed to develop speed-oriented strategies
- III) The use of remote sensors to monitor fluctuations in soil moisture to determine which plants are best suited to plant-forestry investment.

- I
- II
- III

9. Does the following statement correctly describe **the main idea behind the operational alpha** ?

Statement:
 " The main idea behind the operational alpha is to better align operating resources with investment strategies by eliminating internal inefficiencies in the implementation of investment processes. This concept is loosely related to the investment alpha, which is the generation of returns that exceed a benchmark after adjusting to the riskiness of the assets".

- Not correct
- Correct

10. Does the following statement correctly describe **the main goal of operational alpha** ?

Statement:
 " The main goal of operational alpha is to improve net returns by reducing unnecessary operating costs. Since such reductions are often risk-free, operating alpha can replace, and in many cases be higher than investment alpha. It can also complement investment alpha because it leaves room in the risk budget and thus allows strategies with higher upside".

- Not correct
- Correct

11. Which source is the origin of the alt-data set below?

Alt-dataset:{social media, news, reviews, web searches, personal details, cookies}

- Individual processes
- Business processes
- Sensors

12. Does the following statement correctly describe why the **volume, veracity, and velocity** of big data may not determine the value of alternative data for institutional investors?

Statement:
 – Volume (large amount of data) does not create as much value as a complete / comprehensive set of data, which is even smaller, but encompasses more categories.
 – Veracity (the degree of uncertainty surrounding a dataset) does not clearly indicate how accurate and precise the dataset is.
 – Velocity (the rate at which new data arrive) does not create value as much as the freshness of a dataset that reflects the latest changes that are material for effective decision-making.

- Not correct
- Correct

13. Which of these is NOT one of the **six-dimensional characterization of alternative data** mentioned in the reading?

- I) Reliability
- II) Sparsity
- III) Granularity
- IV) Freshness
- V) Comprehensiveness
- VI) Actionability
- VII) Scarcity

- I
- II
- III
- IV
- V
- VI
- VII

14. Does the following statement correctly describe **external asset managers as methods of accessing alternative data**?

Statement:
 "Asset managers: indirect access to alt-data.
Pros: AMs are responsible for sourcing, managing and acting on alt data.
Cons: Investors forfeit the benefits of accelerating internal innovation. Furthermore investors subsidize the manager in improving his capacity for alt-data relative to the investor's own capacity, thereby reducing the investor's future strategic flexibility around alt-data".

- Not correct
- Correct

15. Does the following statement correctly describe **the consequences of the increased use of alternative data on risk for institutional investors.**?

Statement:
 "Market competition makes search for alt-data a moving target. As more participants acquire and process a certain type of alt-data, this type becomes conventional data, which in turn increases the net value of other unconventional datasets. However, as more market participants adopt alt-data sets, markets will be more affected by them until they even influence passive investing. The increased intensity of this race will increase volatility in public markets and, consequently, the risk to investors. This increase in volatility is due to increased market activity driven by market pressure on the short-term/extensive use of alt-data in order to implement the entire data actionability before it disappears".

- Not correct
- Correct

16. Does the following statement correctly describe **rivalry as determinants of alternative data set's value.**?

Statement:
 "Rivalry: This property means that any (profitable) actionability of data is ultimately self-eliminating, so that the value of a data set decreases by acting on it. Scarcity, however, can counteract the erosion of the alt-data value".

- Not correct
- Correct

17. Does the following statement correctly describe **excludability (limited or permanent) as determinants of alternative data set's value.**?

Statement:
 "Excludability: This property defines the extent to which the data and its use can be limited to one or a few users. Unlike conventional financial data, alt data can have a high degree of excludability.

Excludability can be classified as limited or permanent:

– Some alt-datasets are permanently excludable: Who first creates or acquires permanent excludable alt-data can prevent others from possessing and transacting them.

– Many alt-datasets are limitedly excludable: Who holds limited excludable alt-data can only prevent others from acquiring/reproducing them for a limited period of time".

- Not correct
- Correct

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