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DJ FOCUS: Researchers Spot Trade Signals In Google Searches

-- Search-word data from Google and financial-market movements are "strongly correlated," researchers say

-- Computer model-driven funds in equities, bonds and currencies could use search terms as trade triggers

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LONDON (Dow Jones)--The programmers behind high-speed computer-based trading in currencies usually scan tiny price shifts for trade signals, but new research suggests that tracking online search-engine requests could soon catch on too.

Google search volumes and financial-market fluctuations are strongly correlated, according to Tobias Preis, a physicist and founder of Artemis Capital Asset Management. Put crudely, the more often a company's name is searched for on Google (GOOG), the more frequently its stock is likely to trade.

Right now, equities investors are seen as most likely to try and track this sort of data as a way to decide when to place bets. But a group of academics and scientists led by Preis said high-speed currencies traders, who account for up to a quarter of all the foreign-exchange flows transacted in London, could soon catch on too.

"The amazing thing is that the behavior remains the same across asset classes and across different time scales," Preis said. "The empirical law characterizing market trends [the findings of this research] is valid for FX futures as well."

The correlation, derived from a decade's worth of data from Google Trends and the S&P500 index, is based on the idea that when individuals make decisions, including financial and trading decisions, they rely on humans' so-called herding behavior, or the tendency to follow the majority of other people's decisions. This information-gathering process is reflected in publicly available Google search terms.

The patterns don't yet enable researchers to tell whether a stock is set to rise or fall. But the findings did reveal that the more frequently a company name is typed into Google, the more frequently that stock is traded, and the closer that stock is to the extreme of its trend. Preis said this applies across asset classes, too.

It may be tougher to spot reliable correlations for currencies, because a foreign-exchange investor is more likely to search for, say, "UK inflation" or "trade balance" than "sterling" when choosing how to trade the pound.

Still, with a little more probing, it could become a big new area of focus in this fast-growing client group. Preis, along with Suzy Moat, an academic at University College London, is looking into that now and they hinted that there might be some relevant findings to share with a wider audience soon.

For the more academically minded, here are some links to find out more about the research:

http://www.tobiaspreis.de/publications/p_epjst_2011_econophysics.pdf

http://www.eurekalert.org/pub_releases/2011-05/bu-boa050211.php

http://physicsworld.com/cws/article/multimedia/45725

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