Big Data Analytics enabling Portfolio Managers to make Scientific Evaluation of Business Reports for their Investments

CEOCFO: Mr. Katz, what is the concept behind Lucena Research?
Mr. Katz: Lucena provide predictive analytics and decision support technology for the wealth management industry. In particular, we help portfolio managers achieve greater success for their clients by applying a scientific approach to optimizing their portfolios, exploiting market opportunities with precision and scientifically validating their investment before risking capital.
We do so by democratizing some of the most guarded big-data intelligence that has been traditionally only available for a few well established wire-houses.

CEOCFO: Are you providing the raw data in addition to a report?
Mr. Katz: Specifically, we don’t source the data. We consume the raw data from multiple orthogonal sources who holds expertise in their respective domains.
Our technology and services are geared to provides derived intelligence from the raw data. In general, our customers have no interest in the raw data but rather the actionable insights that our analysis produces.

“The industry is young and evolving and there are quite a few new entrants. Many of them are short lived. Others that have been successful are quickly gobbled by large players who wish to establish and maintain a competitive edge. Our true competition really lies behind the closed doors of the large and sophisticated hedge-funds. They deploy substantial capital and resources to develop proprietary technology similar to that of Lucena. We, in a way, help the small, and mid-market, level the playing field.” - Erez Katz

Erez Katz
CO-FOUNDER & CEO
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Lucena Research
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CEOCFO: How do you account for unexpected events? How does the machine know?
Mr. Katz: It depend on the event really. Our technology relies on statistical significance. In other words, we are geared to take advantage of repeatable patterns that have a high likelihood of repeating themselves given similar situations. An exceptional event, by definition cannot provide the statistical significance needed for our analysis.

CEOCFO: Are most money managers comfortable with the big data and technology? Is the industry overall ready or is it still ahead of the game for them?
Mr. Katz: The wealth management industry is undergoing major changes in recent years. First, active portfolio managers have not been performing very well. Last year alone 86% of active funds had underperformed their respective benchmarks. There is a constant outflow of AUM (Assets under management) away from traditional wealth managers to competing products such the robo-advisor platforms (Betterment or WealthFront), or less expensive ETFs or Index Funds. Lastly, most portfolio managers are not capable of taking advantage of the incredible power that big data employs. A recent survey points to an alarming trend in which 90% of millennials and young professionals who came to wealth on their own, or through inheritance, do not stay with the wealth advisors their parents had. Needless to say, wealth advisors are under tremendous pressure to re-invent themselves, sharpen their offerings and simply perform. In a way, Lucena is geared to fill this very void.

CEOCFO: Are there many companies provide a service similar to Lucena?
Mr. Katz: The industry is young and evolving and there are quite a few new entrants. Many of them are short lived. Others that have been successful are quickly gobbled by large players who wish to establish and maintain a competitive edge. Our true competition really lies behind the closed doors of the large and sophisticated hedge-funds. They deploy substantial capital and resources to develop proprietary technology similar to that of Lucena. We, in a way, help the small, and mid-market, level the playing field.

CEOCFO: Is that a growing area for you?
Mr. Katz: I assume you are referring to the concept of applying science to investment decision. Yes it is! Not a week goes by in which I don’t get an email or a phone call from a unique data provider who wishes to enable investors with their unique intelligence. We are currently supporting dozens of unique data source like social media sentiment, corporate action events, news feed sentiment, fundamental data, technical data, insider buying and selling and a few other more esoteric data sources. Our technology enables a streamlined assessment whether a new data source is predictive on its own. More importantly, we normalize the data in such manner that it can co-exist with other data sources. That’s where the real magic occurs as our technology assesses how signals from multiple independent data providers is proven more predictive compared to each data source alone.

CEOCFO: Is there a particular size of firm that has taken advantage or would each analyst have their own arrangement with you? To whom are you marketing?
Mr. Katz: We market to any portfolio manager of any size and phase in the spectrum of wealth management. Our clientele ranges for emerging
managers, to established hedge fund, RIAs (registered investment advisors) and other liquid alternatives institutions. We provide three levels of services that range in price and value. At our core we have QuantDesk®, our flagship Quant-In-a-Box solution. It is a cloud based platform in which we enable a portfolio manager with price forecasting, portfolio optimization, hedging techniques and event signals. It is a highly visual platform that take the complexity out of the equation and in minutes provides unbiased intelligence on a given portfolio or an investment strategy. For many of our RIA clients who do not wish to conduct the research on their own, we developed model portfolios by which we have taken best practice and many hours of research, conducted by our Quants, and packaged into consumable model portfolios. We share the portfolios’ research with our subscribers, we also expose the portfolios' holdings with them. Lastly, we informed them of any pending changes before we execute them. Our clients can follow our research or apply their own discretion. In a way, we serve as an extension of their office with a highly skilled quant-team and machine learning capabilities. All for a fraction of the cost compared to having them attempt to build the same capabilities in-house.

CEOCFO: **How is business?**

Mr. Katz: Business it great. It has been a tough ride for a few years as we needed to establish thought leadership and credibility. Our model portfolios have been doing very well and it has certainly attracted some attention. We are seeing an accelerated adoption and interest in what we have to offer. We are excited about our growth. Our business model is predicated on a dedicated customer base that wish to partner with us for the long run.

CEOCFO: **Why pay attention to Lucena today?**

Mr. Katz: Oh, where should I start…. We get a lot of interest from academia. My co-founder is a professor at Georgia Institute of Technology. He is a world renowned expert in machine learning technology for finance. My background as a serial entrepreneur attracts other entrepreneurs who also had successful exits.

In essence, our leadership possesses a unique combination of academia and business experience that is geared to revolutionize the wealth management space. My sense is that this is just the beginning of an amazing ride. Don’t get me wrong… This is not a walk in the park, there are many tough days in our evolution as a young business.

But for those of us who yearn the agony of defeat and the thrill of victory, it is an entrepreneur’s dream come true and I feel very fortunate to be leading this great organization.

**Interview conducted by: Lynn Fosse, Senior Editor, CEOCFO Magazine**