

A more complete and accurate understanding of  
**FINANCIAL RISK**



# Risk Systems That Read<sup>®</sup>

## Introducing **Risk Systems That Read**®

### **A more complete and accurate understanding of Financial Risk**

Risk Systems That Read qualitatively analyzes information as it becomes available, delivering the underlying stability of a long-term model, rapid adaptation to changing conditions, and broad coverage.

News items, positive or negative, usually have a significant impact on future volatility levels. Risk Systems That Read processes news by characterizing it, using metrics such as sentiment of the article (good news/neutral/bad news), novelty (has similar news been previously reported recently?), and event type (news about a merger is more important than a routine dividend payment). These metrics, combined with the flow rate of news on companies, sectors, and countries, enable Risk Systems That Read to predict how levels of financial portfolio volatility risk will be different than typically estimated..

### **What makes Risk Systems That Read Different?**

Almost all risk models available in the market today are “unconditional” in the sense that they are based entirely on a sample of history that is deemed relevant, possibly giving more weight to recent observations, or assuming a simple trend-following model of volatility. These other approaches assume that the future will be like the past during sample periods ranging from as short as 60 trading days to as long as 20 years.

Conventionally, short-term models are built following the same steps as for long-term models, but on higher frequency (e.g., daily) data with shorter sample periods. Putting aside statistical complexities (for example, how to determine correlation with asynchronous global markets), this outdated process omits everything we know about the present, and most importantly what we know about how the present is different from the sample period

### **Here’s how it works?**

Northfield’s partner, Alexandria Technology, a pioneer in machine learning, has developed classification algorithms that mimic the way a research analyst would evaluate news: capturing the who (entities), what (topics or events) and importance of a story (sentiment).

On a typical day, Alexandria analyzes more than 5,000 news articles from Dow Jones & Co., including premium publications such as the *Wall Street Journal* and *Barron’s*. Each classification takes less than thirty-milliseconds.

From there, the data sets head to Northfield where we apply the Risk Systems That Read analytics and updates existing models. You receive them overnight.

**Risk Systems That Read** is  
the biggest step forward in risk  
modeling for asset management  
since the creation of the multi-factor  
risk model in the 1970s.

## About Northfield

For more than three decades, Northfield has been modeling financial markets worldwide. Controlling billions of dollars, our clients are focused on getting the right answers to their most complex investment questions.

We embrace complexity. In fact, nothing is too big or too complicated for us. Our work is based on years of groundbreaking and heralded research that continues to fuel forward-thinking technology and broad, customized content offerings.

With decades of experience our team of experts is obsessed with providing detailed, comprehensive, and candid answers to the questions that will make you as successful as possible.

## Learn More

Risk Systems That Read is a profound improvement on techniques for near and medium-term horizon risk estimation in a variety of portfolio management, trading, and credit risk applications.

To start, call your **Northfield Information Services, Inc.** representative or visit us on [www.northinfo.com/news.php](http://www.northinfo.com/news.php)

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