Exponential ETFs

American Customer Satisfaction Investable Index

FAQs

What is the American Customer Satisfaction Investable Index?

The American Customer Satisfaction Investable Index utilizes proprietary customer satisfaction scores to weight stocks within each sector by their relative customer satisfaction scores. The index utilizes customer satisfaction metrics for over 350 brands, representing over 150 large capitalization securities for inclusion in the index. Sector constraints are applied at the time of index rebalance with the intention of providing a diversified portfolio across all U.S. sectors. All securities within the index are listed on a major U.S. stock exchange and measured by the American Customer Satisfaction Index.

Where is the proprietary customer satisfaction data sourced?

The American Customer Satisfaction Index, which was founded at the University of Michigan, is the only national cross-industry measure of customer satisfaction in the United States. The Index measures the satisfaction of U.S. household consumers with the quality of products and services offered by both foreign and domestic firms with significant share in U.S. markets.

Each year, roughly 180,000 customers are surveyed about the products and services they use the most. The survey data serve as inputs - into a proprietary econometric model - that benchmarks customer satisfaction with more than 300 companies in 44 industries and 10 economic sectors, as well as various services of federal and local government agencies. The resulting output provides key insights across the entire customer experience. Exponential ETFs holds an exclusive license to use this unique dataset for investment purposes.

Customer satisfaction as an investment metric:

The idea that firms which excel at satisfying their customers can perform well financially is intuitive. Consumer markets are highly competitive and companies maintain revenue streams through repeat sales by returning customers. High customer satisfaction for a company relative to its competitors helps boost customer retention and loyalty, which in turn strengthens its financial outlook. Two decades of research by the American Customer Satisfaction Index demonstrate that customer satisfaction (an intangible asset) is inextricably linked to a firm's value, and can be a predictive driver of stock market performance.

How does customer satisfaction drive stock performance?

The mechanism by which customer satisfaction, as an intangible asset to the company, is disseminated to the market is through revenue and earnings surprises. That is, relative to their competition, strong customer satisfaction companies should be more likely to have positive revenue and earnings surprises.

At its core, customer satisfaction is a proxy for utility. As classical economic theory dictates, buyers will spend to maximize their utility (or satisfaction). Therefore, one would expect strong customer satisfaction companies to have better revenue growth relative to competition. Also, to the extent that satisfied customers, as repeat purchasers, are less costly compared to generating new customers, profits should be higher as well.

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Why is the American Customer Satisfaction Investable Index beneficial?

Non-Correlated Factor

Most factor and smart beta indices are mining their data inputs from the same quarry of publicly available information and therefore carry a certain amount of systematic underlying risk. The American Customer Satisfaction Investable Index sources its information from a proprietary dataset and is unique in its distillation of customer satisfaction as an investment factor. This provides a unique driver of performance that is fundamentally different from other possible portfolio components.

Forward Looking, Value Relevant Information

Customers react and change their buying behavior based on their shopping and consumption experience well before the net result of that behavior shows up in the publicly available earnings reports - which traditional fundamental analysis relies on. The time lag (up to three quarters, but typically faster) depending on the buying cycle in question, can allow the index to get ahead of that financial information by utilizing our data provided from the customers themselves.

Downside Protection

Satisfied customers are sticky customers. They tend to have a higher degree of loyalty and are also less sensitive to price increases. These customers are the last to leave in economic downturns and the first to return when things improve. During times of economic stress aggregate consumption tends to decrease, however the firms that have higher satisfaction relative to their peers may receive a bigger slice of a smaller pie, as consumers concentrate their purchases in areas they know will yield satisfaction.

Where does Customer Satisfaction fit in a portfolio?

Core U.S. Large Cap Equity Holding

The American Customer Satisfaction Investable Index seeks to represent an integral part of a portfolio's core U.S. Large Cap equity exposure. The index is generally comprised of 70 – 90, mostly large cap, U.S. equities that are weighted to maximize the benefit of their customer satisfaction signal. In order to maintain representative broad market exposure, all sectors are constrained by a 10% tolerance band of the S&P 500's overall sector allocation at the time of rebalance. This provides the index with diversification benefits while providing exposure to the overall broad market. As an index that relies on proprietary input which is not correlated to other traditional fundamental factors; we believe these insights inform a robust investment strategy where intuitive investment tactics, paired with high-level analytics, come together to create an elegant solution.