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MSDS 451
Term Project Checkpoint A
Books & Reading ETF

Introduction:

I am conducting this research to create a new Exchange-Traded Fund focused on companies in the books and reading industry. The goal is to build an investment fund that captures the growing trend of people returning to physical books and reading (Mac Donnell). Additionally, social media platforms are driving book sales through growing trends. For example, Barnes and Noble has a section in-store dedicated to “#BookTok" (Barnes & Noble). Traditional bookstores are also opening new locations for the first time in years (James).

The target audience for this ETF include investors who want exposure to the reading and education sectors, ESG-focused investors who support literacy and education, and trend-following investors (Scott). This research will provide insight on how to value book publishing and retail companies, trading patterns in education and media stocks, the impact of social media on traditional industries, and risk management strategies for sector-specific ETFs. The final application will be an automated trading system that can buy and sell these stocks based on data-driven rules.

Literature Review:

Research has provided insights into the rapid growth of the reading and education sectors. One example is that AP News stated that there is a comeback in physical bookstores and illustrated that independent bookstore openings have increased 15% annually since 2023 (Italie). Additionally, one of Barnes & Noble’s most recent press releases states that they plan to open 60 new stores in 2025, reversing years of closures (Barnes & Noble Press Release). They state that in 2024, “Barnes & Noble opened more new bookstores in a single year than it had in the whole decade from 2009 to 2019” (Barnes & Noble Press Release).

From an investment research perspective, the closest existing fund is the Invesco Next Gen Media and Gaming ETF (PBS), which covers 31 stocks (yfinance). PBS's top sectors within its sector concentration are Entertainment at 33.75%, then Publishing & Printing at 11.84%, followed by Television & Radio 10.37% (ETFChannel). PBS focuses on companies with exposure to technology that contribute to media through direct revenue. It maintains $33.2M in net assets with a 0.60% expense ratio. The fund's emphasis on technology companies rather than traditional book suppliers demonstrates how existing media ETFs miss the book selling market opportunity or do not focus enough on this

There is limited research on how to combine publishers, retailers, and distributors in one fund. The PBS ETF shows that while there is interest in media investing, current options focus on gaming and technology rather than traditional book publishing. Additionally, there are no quantitative trading strategies specifically designed for book industry stocks. These gaps represent the opportunity that my research aims to address.

Methods:

My research combines financial analysis with data science techniques. I will gather financial data from public sources including Yahoo Finance for stock prices and financial statements and SEC filings for detailed company information. Additionally, I will use Google Trends for book search patterns to supplement my research. I believe that this is a comprehensive data collection approach that will collect financial metrics and trends.

My ETF will include publicly traded companies across four categories. Larger book retailers will represent 40% of the fund: Amazon (AMZN), Target (TGT), and Costco (COST). These companies provide portfolio stability because they sell many different products beyond books. Dedicated book retailers would be 25% of the fund, Barnes & Noble Education (BNED), Scholastic Corporation (SCHL), John Wiley & Sons (WLY). Companies with publishing operations would be 20% of the fund: News Corp (NWSA) which owns HarperCollinsPublishers, and New York Times Company (NYT). Educational content companies will make up the remaining 15% through RELX (RELX) and Thomson Reuters (TRI) (Millot).

My investment strategy would use multiple approaches. My analysis would look at revenue growth, profit margins, and the digital transformation progress of each company. Additionally, my technical analysis would look at patterns like back-to-school and holiday sales. Alternative data analysis will track social media trends and Google search data for books and reading-related terms. In terms of risk management, this would be achieved through diversification across different types of book companies, quarterly rebalancing of the fund, and stop-loss rules if any stock drops more than 15% (Kenton). Additionally, there would be a monitoring of social media sentiment for early warning signs .

Results:

Analysis of my target companies show why the 40% allocation to large retailers would add diversification to this ETF. Amazon generates steady revenue from Prime memberships and regular every day purchases even when book sales slow down. Target sells everyday items that people buy regardless of book trends. Also, their stores help customers discover new books while shopping. Costco's membership fees also provide reliable revenue, and they focus on bestselling books that sell consistently. These companies give the ETF stability that pure book companies cannot provide.

The remaining companies offer more direct book exposure. Barnes & Noble Education (BNED) and New York Times (NYT) show growth and are adapting well to changing markets. Analysis of historical data shows seasonal trading patterns. Education stocks including BNED and SCHL peak in August and September during back-to-school periods. Retail stocks such as TGT and COST see book sales spikes in November and December during holiday gift-giving seasons. Publishing stocks like NWSA, RELX, TRI, and NYT maintain steady performance year-round. This would provide portfolio stability.

Conclusion

This research demonstrates that creating a Books & Reading ETF could potentially be profitable. The book industry is experiencing a regrowth due to social media trends, but traditional investment funds are not positioned to capture this opportunity. The book industry is growing faster than many realize, with both digital and physical books gaining market share simultaneously rather than competing directly. The portfolio effectively spreads risk across publishers, retailers, and distributors while maintaining focus on the book theme, providing better diversification. The combination of traditional financial analysis with social media data creates a competitive advantage.

However, several concerns require ongoing attention and risk management. Book purchases may decline during economic recessions, making the fund economically sensitive. The current growth depends on social media trends, which will change over time and change growth drivers. I will mitigate these risks through several strategies. Including large, stable companies like Amazon, Target, and Costco. These offer defensive characteristics during market downturns. Maintaining diversification across education, retail, and publishing segments reduces sector concentration risk.

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