**Betting against beta**

My interpretations

CAPM context – essentially investors create profiles that distribute resources to what they believe will produce the greatest excess return per risk.

Leverage/de-leverage -> flexibility of the portfolio

Online definitions.

BETA: A measure of the volatility/systemic risk of a security or portfolio in comparison to the market as a whole.

Alpha -> A measure of performance on a risk-adjusted basis.

Leverage -> Any technique to multiply gains and losses. Ex. Buying more of an asset by using borrowed funds.

Paper -> Several questions arise: How can an unconstrained arbitrageur exploit this effect, i.e., how do you bet against beta? What is the magnitude of this anomaly relative to the size, value, and momentum effects? Is betting against beta rewarded in other countries and asset classes? How does the return premium vary over time and in the cross section? Who bets against beta?

Examines agents with/without constraints on securities. Hypothesizes(?) that those with fewer constraints choose securities with lower betas and leverages those securities. Generally finds that the previous sentence produces higher returns.

Interesting\*

**QUALITY MINUS JUNK**

My interpretations -

Internet definitions –

Paper –

We define a quality security as one that has characteristics that, all-else-equal, an investor should be

willing to pay a higher price for: stocks that are safe, profitable, growing, and well managed.

quality-minus-junk (QMJ) factor that goes long high-quality stocks and shorts low-quality

stocks

Examines the effect (visibly, and questionably, low) of quality on price, and notes the high return of QMJ trading. Examines QMJ factor further. <- “negative market beta and factor loadings and performs well in recessions and crises” (pg. 8)

Conclusion: high quality firms do exhibit higher prices. Price of quality varies over time. Appears that quality is underpriced or junk is overpriced (they’re unsure).

**VALUE AND MOMENTUM EVERYWHERE**

My interpretation –

“Momentum Effect” – Relation between asset’s return and its recent relative performance.

“Value effect” – “Relation between an asset’s return and the ratio of its “long-run” (or book) value relative to its current market value.”

Internet definitions –

Paper –

We uncover unique evidence and features of value and momentum by examining them jointly across eight different markets and asset classes (individual stocks in the United States, the United Kingdom, continental Europe, and Japan; country equity index futures; government bonds; currencies; and commodity futures).

Specifically, how much variation exists in value and momentum premia across markets and asset classes? How correlated are value and momentum returns across these diverse markets and asset classes with different geographies, structures, investor types, and securities? What are the economic drivers of value and momentum premia and their correlation structure? What is a natural benchmark model for portfolios of global securities across different asset classes?

Conclusion:

Although both behavioral and rational theories for value and momentum focus predominantly on equities, the existence of correlated value and momentum effects in other asset classes—with their different investors, institutional structures, and information environments—argues for a more general framework.

**Not as interesting, but it also perhaps isn’t as clear to me what they’re doing, and how they’re relating value and momentum.**

**TIME SERIES MOMENTUM**

My interpretation –

Internet definitions –

Time series momentum – A security’s own past return predicts its future return

Cross-sectional momentum – A security’s outperformance relative to peers predicts future relative outperformance

Roll yield - The amount of return generated in a backwardated futures market that is achieved by rolling a short-term contract into a longer-term contract and profiting from the convergence toward a higher spot price.

Paper –

Our finding of time series momentum in virtually every instrument we examine seems to challenge the “random walk” hypothesis, which in its most basic form implies that knowing whether a price went up or down in the past should not be informative about whether it will go up or down in the future.

Highest returns when the stock market experiences extreme returns “performing best when the market experiences large up and down moves.”

We find a significant time series momentum effect that is remarkably consistent across the nearly five dozen futures contracts and several major asset classes we study over the last 25 years.

Conclusion:

Time series momentum exhibits strong and consistent performance across many diverse asset classes, has small loadings on standard risk factors, and performs well in extreme periods, all of which present a challenge to the random walk hypothesis and to standard rational pricing models.

Indeed, correlation among time series momentum returns is stronger than the correlation of passive long positions across the same asset classes, implying the existence of a common component to time series momentum that is not present in the underlying assets themselves.

Time series momentum represents one of the most direct tests of the random walk hypothesis and a number of prominent behavioral and rational asset pricing theories. Our findings present new evidence and challenges for those theories and for future research.