

Momentum Funds

Case Study Questions.

Read the Case study “AQR’s Momentum Fund” and answer the following questions:

1. Should AQR launch the Momentum Funds? Why or why not?
2. How important do you think it is that AQR establish a momentum index at the same time they launched their funds? What would be the commercial reason to publish an Index?
3. What do you think are the appropriate benchmarks for the AQR Momentum Funds? Why does AQR think that the net performance of their Funds will exceed those benchmarks? What do YOU think?
4. Does momentum make an attractive product for mutual fund investors? If so why?
5. The new AQR funds will be long-only and do not allow short positions. Is this likely to be more of a concern for momentum than other quantitative strategies?
6. If AQR launches the Momentum Funds, how should they weigh maximizing returns vs. minimizing tracking error? How should they manage the portfolio?

Empirical Questions.

1. Over the sample period provided, what is the “alpha” of a simple AQR momentum strategy (you can use the Fama-French MOM factor). Compare it with other strategies of your choice. Use the historical data provided in both sheets of the electronic case materials and be prepared to argue your opinion.
2. Estimate the correlation between the return on the momentum and value portfolios. Is it on average positive or negative? How would you best recommend AQR use momentum in combination with VALUE?
3. AQR is thinking to introduce a new momentum index (IND_MOM) linked to industry specific returns. Using the data provided can you find evidence of momentum industries? If so, what would have been the returns on this index over

the last decade compared with the standard Fama-French MOM factor? What is the correlation between industry momentum and value? Should they consider running VALUE + MOM + IND_MOM fund? What issues should AQR be thinking about in considering this decision?