5. Factor investing

A popular quantitative investing technique in recent years is called “**factor investing**” or “**smart beta**”.

It relies on “**factors**” — quantifiable features that explain differences in stock returns of a subset of stocks vs a market index.

More that **300** such factors have been identified in financial research literature throughout five decades[1], a situation referred to as “the factor zoo”, although for most there have been replication problems reported in recent years[2].

Nonetheless the remaining factors have strong research backing. Among the most impactful and widely implemented:
value,
momentum,
growth,
size,
quality,
low-volatility,
dividend yield.

[1] see: “**…and the Cross-Section of Expected Returns**”, Harvey et al, 2015
[2] see: “**Replicating Anomalies**”, Hou et al., 2017

5. Factor investing

source: MSCI (Data normalized from Jan. 1, 1975 with factor tilts on MSCI World Index) via ETF.com: https://www.etf.com/sections/blog/new-msci-indexes-erase-smart-beta'