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].

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

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