



Terminology

The terminology used to describe factor models varies widely. Here are some common phrases used to refer to the components of the model.

Factor returns (the f_k s) may be:

- macro-economic variables
- returns on pre-specified portfolios,
- returns on zero-investment strategies (long and short positions of equal value) giving maximum exposure to fundamental or macro-economic factors,
- returns on benchmark portfolios representing asset classes,
- or something else.

The b_{ij} coefficients may be called:

- factor exposures,
- factor sensitivities,
- factor loadings,
- factor betas,
- asset exposures
- style
- or something else.

The s_i term may be called:

- idiosyncratic return,
- security-specific return,
- non-factor return,
- residual return,
- selection return
- or something else.

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