

MGMT 638

Session 4

Kerry Back

Fall 2025

Agenda

- Fama-French factors
- Data
- Using sorts to evaluate factors
- Building a streamlit stock recommender app
- Profitability factor
- Sorting on multiple factors

Fama-French 5 Factors

- PDF: Fama and French, 2015
- Video: Fama and French, 2015
- NotebookLM

The five factors:

- Market risk (MKT)
- Size (SMB: Small Minus Big)
- Value (HML: High Minus Low)
- Profitability (RMW: Robust Minus Weak)
- Investment (CMA: Conservative Minus Aggressive)

Data

- Download [data1.parquet](#)
- Monthly data for all stocks in database for Feb, 2011 through Oct, 2025
- Return, momentum, market cap, equity, assets, gross profit, operating profit, net income (netinccmn), asset growth rate (agr)
- Tell Claude:
 - Compute bm (book-to-market) as equity / marketcap.
 - Compute gpa as gross profits / assets
 - Compute roe as netinccmn / equity
 - Compute opr as operating profit / equity
 - Compute lagret by shifting return forward one month after grouping by ticker

Sorting

- Pick a factor: size (marketcap), value (book-to-market), momentum, lagret, agr, opr, gpa, or roe
- Tell Claude;
 - Sort by the factor each month into deciles.
 - Then calculate the average return of each decile each month.
- We now have returns of 10 portfolios that could have been constructed in real time.
- We're selecting stocks at the beginning of each month, investing the same amount in each stock, and holding for a month.
- Which of the 10 portfolios did better? What criteria will you use to decide?

Streamlit

- Your 1st assignment is due Sunday night. It is to build a Streamlit stock recommender app.
- Trial run. Tell Claude:
 - Sort stocks into quartiles based on some stock factor for November, 2025.
 - Label the best quartile as 'Buy', the worst quartile as 'Sell', and the middle half as 'Hold.'
 - Build a Streamlit app that prompts the user for a ticker and then displays the recommendation or 'Not Classified' if the ticker is not in the data set.
 - Run the streamlit app.

Profitability

- PDF: Novy-Marx and Medhat, 2025
- Video: Novy-Marx and Medhat, 2025
- NotebookLM

Sorting on Multiple Factors

- We can group stocks based on multiple factors.
- If we use a lot of factors and a lot of groups, some groups may be unpopulated or sparsely populated.
- Factors usually only work in diversified portfolios, because factors are weak predictors.
- Examples that should be OK:
 - Two factors and quintiles \Rightarrow 25 portfolios
 - Three factors and terciles \Rightarrow 27 portfolios
- Try momentum and book-to-market. Tell Claude to sort into quintiles on each factor each month and to compute the average return each month in each of the 25 groups. What is the best group?