

Factor Momentum Everywhere

ChatGPT

September 4, 2023

1 Data

The study uses data from various countries including the United States, Europe, Pacific (Australia, Hong Kong, Japan, New Zealand, Singapore), Canada, Sweden, and Israel. The timeframe of the study is not explicitly mentioned, but it covers a long look-back period of five years and includes factors that can be constructed beginning in the 1960s.

2 Summary

In this article, the authors investigate the concept of factor momentum in equity markets and its potential to enhance investment strategies. They find that individual factors can be successfully timed based on their past performance, with a time series momentum trading strategy generating excess performance. The authors construct a time series factor momentum (TSFM) portfolio that combines timing strategies of all factors and find that it earns an annual Sharpe ratio of 0.84, outperforming any individual factor's time series momentum. TSFM is largely unexplained by other sources of excess returns and exhibits positive momentum across different look-back windows. The authors compare TSFM with a cross-sectional factor momentum (CSFM) approach and find that while they are fundamentally the same phenomenon, TSFM provides a purer measure of expected factor returns. The authors also investigate the turnover and transaction costs of factor momentum and find that its outperformance remains even when considering transaction costs. Furthermore, the authors demonstrate that factor momentum is a global phenomenon, with similar outperformance observed in international equity markets. The authors' findings contribute to the understanding and implementation of factor momentum strategies, highlighting the importance of a time series approach. The authors also provide additional details on the methodology and performance of the TSFM strategy, showing that it earns an annualized average return of 12.0%. The authors further analyze the performance of TSFM by regressing it on alternative momentum strategies, finding that TSFM has a significant alpha relative to UMD, INDMOM, and STR, indicating its ability to subsume these strategies. The authors also investigate the role of various momentum strategies in a broader portfolio that includes

other common investment factors, finding that TSFM plays an incrementally beneficial role. The authors discuss the diversification benefits of combining momentum factors with value factors, particularly when using the "HML-Devil" refinement of Asness and Frazzini (2013), which outperforms the traditional Fama-French HML. They find that the correlation of UMD and HML-Devil is higher than the correlation of UMD and Fama-French HML, indicating stronger hedging benefits. The authors also analyze the implementability of factor momentum strategies by considering turnover and transaction costs, finding that factor momentum continues to outperform other strategies even after accounting for these costs. Additionally, the authors show that the strong performance of short-term reversal is illusory when controlling for factor momentum and transaction costs. Finally, the authors demonstrate that factor momentum conclusions from the US sample are strongly corroborated in international equity markets. The authors find that individual factor returns are highly persistent in international markets, and that international factor momentum demonstrates stable performance regardless of the formation window. They also find that international factor momentum exhibits large and significant excess performance. The authors also provide new information on the correlation between US and international TSFM portfolios, as well as the performance of a combined US and international TSFM portfolio. They find that the combined portfolio earns a slightly lower annual Sharpe ratio compared to the individual portfolios, but still outperforms. The authors also conduct further robustness analyses, finding that the performance of factor momentum is not dependent on using dozens of fine-grained factors and that dynamically adjusting factor weights over time is a key driver of performance. Overall, the authors' findings highlight the robustness and global nature of factor momentum, and its potential to enhance investment strategies.