

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 specifically analyze factor momentum in various regions including Europe, Pacific, and Canada, and find that individual factor returns are highly persistent and that international factor momentum demonstrates stable performance regardless of the formation window. The authors' findings contribute to the understanding and implementation of factor momentum strategies, highlighting the importance of a time series approach. They also provide a more expansive view of factor momentum, studying a comprehensive collection of US equity factors and documenting factor momentum in international equity markets. The article references several

relevant studies on momentum and factor investing, providing additional context for the authors' research.