

Reexamination of Factor Momentum

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1 Data

The study uses two data samples: 1) The first sample includes 15 U.S. and 7 global equity market factors. The U.S. factors are obtained from three public sources: the AQR website, Kenneth French's data library, and Robert Stambaugh's data library. The global factors are controlled for the global FF5 and UMD. 2) The second sample includes a much more extensive set of 187 factors.

The timeframe for both data samples is not explicitly mentioned in the given context. However, for the 15 U.S. factors, 14 of them are available from July 1963, while the liquidity factor starts in January 1968. The end date for all factors is July 2015.

2 Summary

This paper reexamines the factor momentum effect in financial markets using two datasets: one with 22 factors and another with 187 factors. The authors find that the factor momentum effect is weak at the individual factor level, with only about 22-27% of factors exhibiting strong return continuation and dominating the factor momentum portfolio. These factors are referred to as return continuation factors (RCFs), while the remaining factors are considered non-RCFs. The authors also observe that factor momentum strategies do not outperform long-only strategies in either dataset. The choice of factors also affects the ability of factor momentum to explain individual stock momentum. The findings suggest that factor momentum is not as strong as previously thought and highlight the need for further research in this area.

In further analysis, the authors decompose the dataset into RCFs and non-RCFs based on return persistence. They find that the momentum profit generated by the RCFs is substantially greater than the profit of the non-RCFs or the entire portfolio. The RCFs dominate the profitability of the factor momentum portfolio, while the non-RCFs contribute much less. These findings hold across different formation and holding periods.

The study also examines the ability of factor momentum to explain individual momentum trading schemes. The authors find that only the RCFs fully span the individual stock momentum, while the non-RCFs do not. This means that the portfolio return of the non-RCFs cannot be fully explained by individual stocks, and the individual stock momentum return cannot be fully explained by the non-RCFs. The choice of factors is therefore important in understanding factor momentum.

The authors confirm that the factor momentum effect generally exists, but it is weak at the individual factor level. The momentum factor identified by Jegadeesh and Titman (1993) is found to be an aggregation of the autocorrelations of other financial anomalies, rather than an independent factor. The study highlights the importance of considering specific factors and conducting further research in this field. The results suggest that factor momentum strategies may not be as effective as previously believed and that practitioners should carefully select factors when implementing factor momentum strategies.

Additionally, the authors analyze the significance of abnormal returns generated by different factor momentum strategies using four competing factor models. They find that the Value-Growth and Profitability anomalies have the strongest ability to generate abnormal returns, while the Investment and Frictions anomalies exhibit relatively weaker abnormal returns. In the larger dataset, controlling for potential Type I errors, only 22 factors out of 187 can produce significant abnormal returns after controlling for other factors. This suggests that time series momentum strategies based on most financial anomalies do not yield significant alphas.

Overall, the study provides insights into the factor momentum effect, highlighting the importance of specific factors and the need for further research. The findings suggest that factor momentum strategies may not be as effective as previously believed and that practitioners should carefully select factors when implementing these strategies. The results also indicate that the momentum factor identified by Jegadeesh and Titman (1993) may not be an independent factor but rather an aggregation of other financial anomalies. The study emphasizes the importance of considering individual factors and conducting further research to better understand the factor momentum effect in financial markets. The results also suggest that time series momentum strategies based on most financial anomalies do not yield significant abnormal returns.