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Investment Management and Machine Learning

Week 5 Project

Please copy your code and results to a Word file (or another file format that can show the code and results in one file) and submit the file to Canvas-Assignments-Week 5 Project.

1. Come up with a strategy that uses a variable (e.g., a financial ratio) to rank stocks in each year-month.

2. Download and construct the datasets that can be used to test this strategy (you could pick any time period). Find the stocks with >= 90th or <=10th percentile of the chosen variable in each year-month (The choice of 90th or 10th percentile depends on whether you think the chosen variable is positively or negatively related to returns). And construct the monthly returns of an equal-weighted portfolio for these stocks.

3. Run regressions to test the statistical significance of the average portfolio return and the average portfolio return in excess of SP500 index returns. Copy and report the regression outputs.

4. Regress portfolio returns in excess of the risk-free rate on the six factors. Copy and report the regression outputs.