



TD Direct Investing | Client Education

Five risk factors I use to build my portfolio



Guest Speaker Biography



FAST FACTS

Ben Felix, PWL Capital

- Runs a YouTube channel about investing
- Co-hosts the Rational Reminder podcast
- Certified Financial Analyst & Planner
- Chartered Investment Manager (CIM®)



Factor investing definition



WHAT IS FACTOR INVESTING?

Factor investing is an approach that selects securities based on criteria that are thought to be associated with higher expected returns. These factors may be macroeconomic or stylistic.



Five factors definition

WHAT ARE THE FIVE FACTORS?

Risk factor premiums identified in the Fama French Five Factor Model

- Market beta (MKT): total market returns minus U.S. Treasury Bill returns
- Company size (SMB): small cap stock returns minus large cap stock returns
- Relative price (HML): value stock returns minus growth stock returns
- Profitability (RMW): high profit stock returns minus low profit stock returns
- Investment (CMA): low book value growth stock returns minus high book value stock returns



Five factors historical premiums

DECIDING FACTORS

Performance of the five risk factors in the Fama French model based on historical data

Table 3: US Stock Premiums 7/1963 - 5/2022

	MKT	SMB	HML	RMW	CMA
Annualized Return	5.70%	2.13%	3.26%	3.07%	3.41%
Annualized Standard Deviation	15.44%	10.49%	10.24%	7.67%	6.98%

Table 4: Developed Markets ex-US Premiums 7/1992 - 5/2022

	MKT	SMB	HML	RMW	CMA
Annualized Return	3.79%	0.73%	3.86%	3.61%	1.52%
Annualized Standard Deviation	15.97%	6.75%	8.18%	4.74%	6.31%

Table 5: Emerging Markets Premiums 7/1992 - 5/2022

	MKT	SMB	HML	RMW	CMA
Annualized Return	5.01%	0.90%	7.69%	2.09%	3.08%
Annualized Standard Deviation	20.95%	7.24%	7.99%	5.55%	6.66%

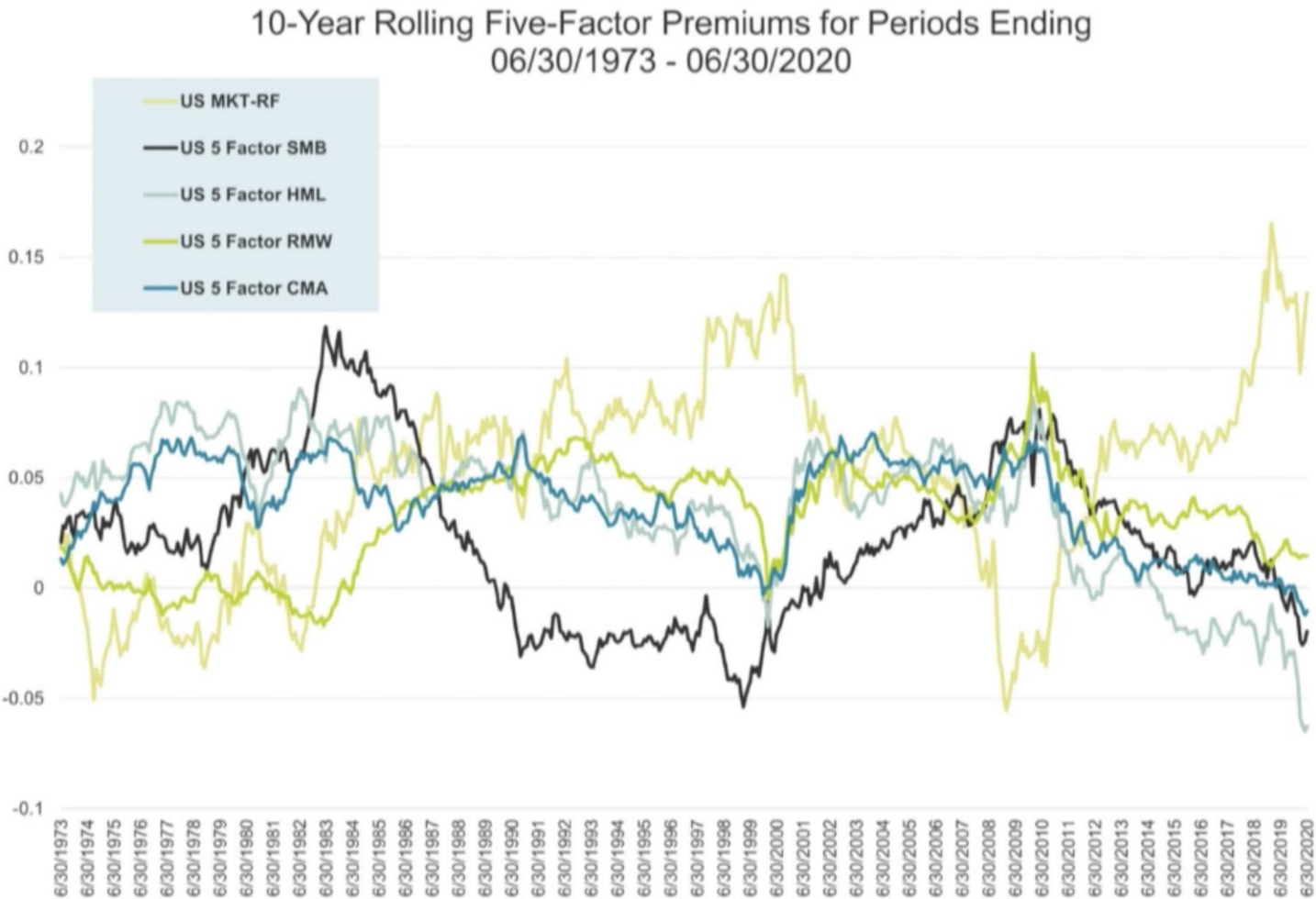
The rate of return averages are for illustration purposes only.
Actual rate of return performance may be better or worse than shown



Five factors rolling 10-year premiums

PERSISTENT PREMIUMS

The five risk factor premiums have generally been positive for U.S. stocks since 1973



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Five factor index historical performance

MEASURING UP

A five factor index for U.S. stocks outperformed the market benchmark, as of June 2020

1/1/1975 - 6/30/2020	Dimensional US Core Equity Index	CRSP 1-10 Index
Annualized Return (%)	13.52	12.12
Annualized Standard Deviation (%)	15.43	15.41

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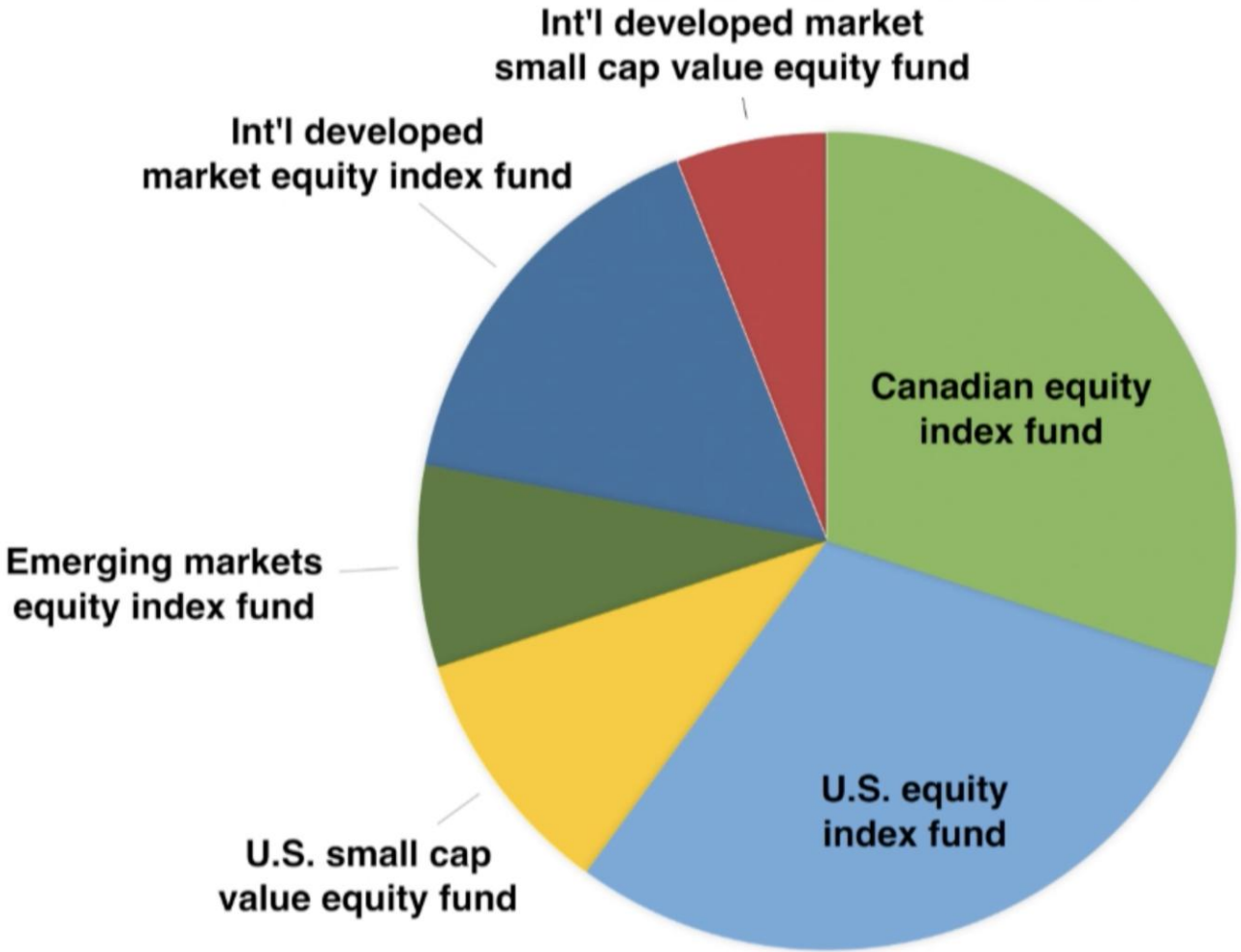
Ben Felix; Dimensional Funds



Example five factor portfolio

PORTFOLIO PERSPECTIVE

An example of how PWL Capital constructs a factor portfolio



Information is for illustration purposes only. Assess your own unique goals, needs and risk tolerance before investing.