



# Factor Performance & Research Update

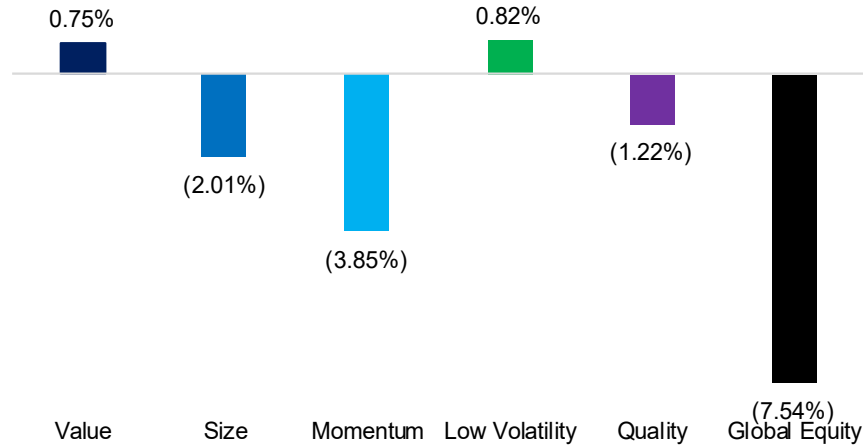
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## Factor Performance Update

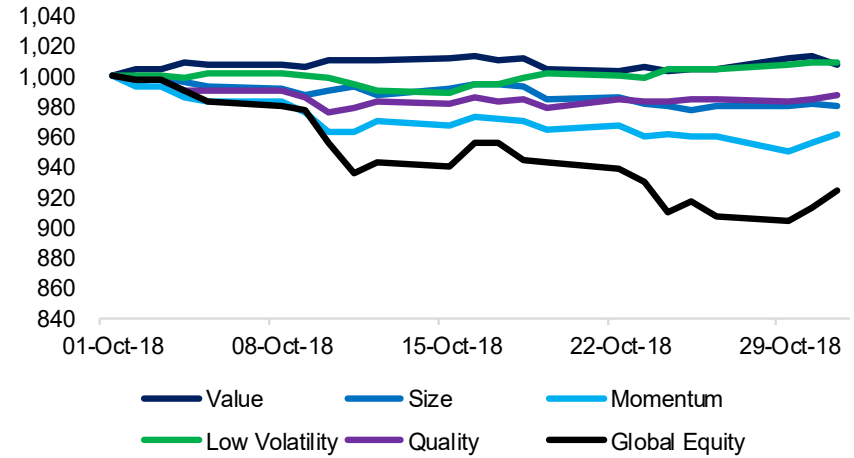
# Factor Performance Update: October 2018

## Tech / Momentum Sell-Off

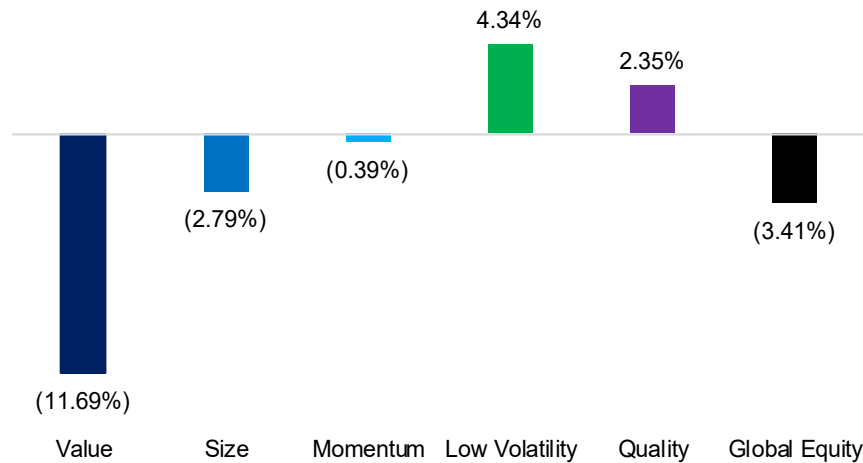
Global Equity Factors (Long-Short): Last Month



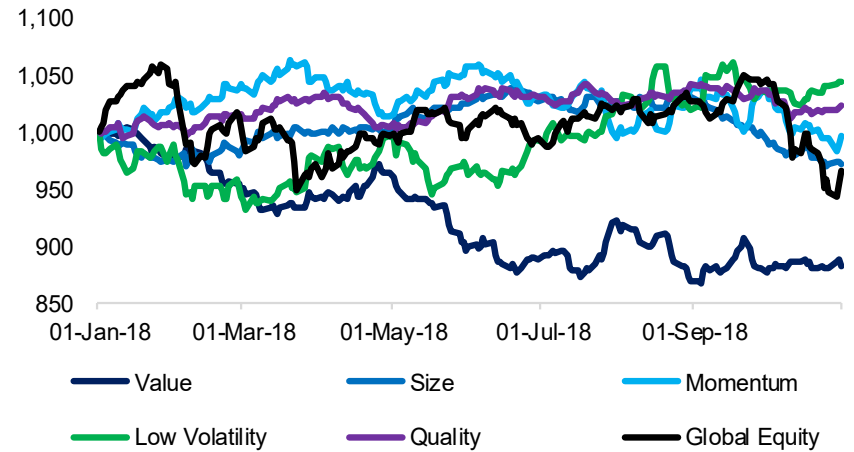
Global Equity Factors (Long-Short): Last Month



Global Equity Factors (Long-Short): Year to Date



Global Equity Factors (Long-Short): Year to Date



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Research Topic 1:  
Improving the Odds of Value

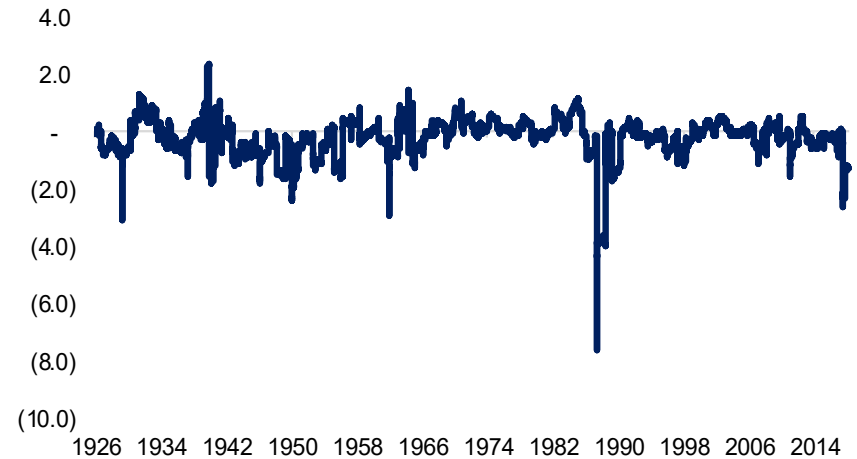
# Improving the Odds of Value (I / II)

## What's Driving the Value Factor?

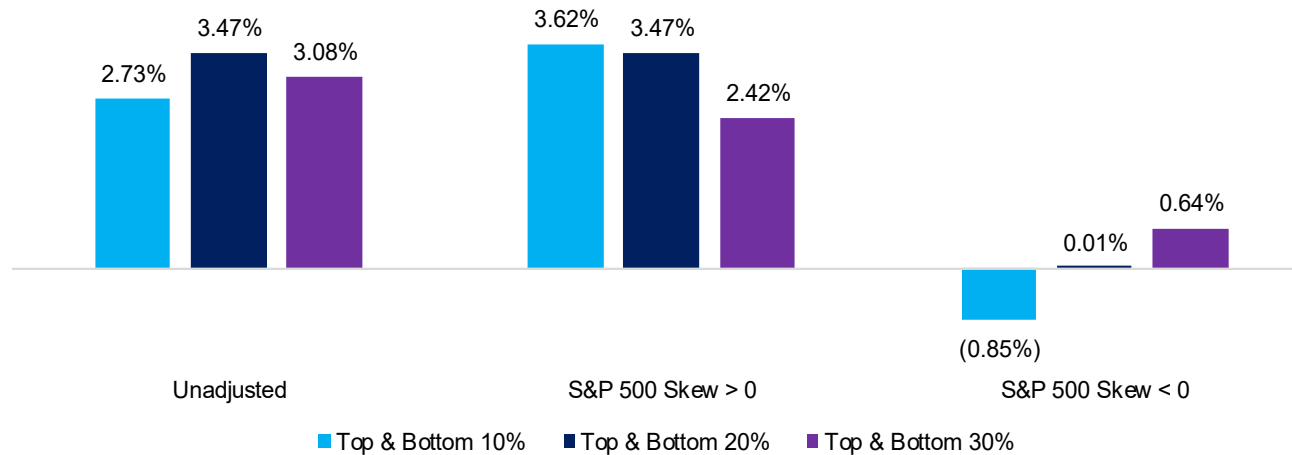
### Comment

- Value investors earn a premium for holding undesirable stocks
- Market skewness may identify periods where the premium is more attractive
  - Likely explained by rear-view perspective of investors
- The returns from the Value factor since 1926 were zero when market skewness was negative

### S&P 500 Skewness (1926 - 2018)



### Value Factor (Long-Short): Returns Per Annum (1926 - 2018)



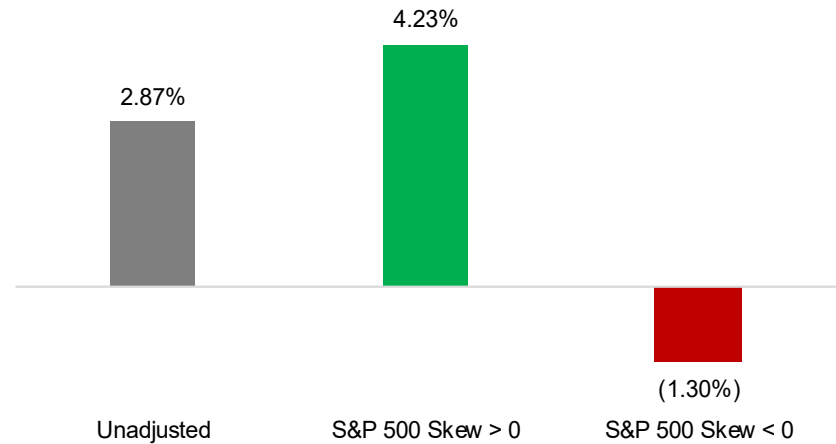
# Improving the Odds of Value (II / II)

## Tactical versus Strategic Allocations to Value

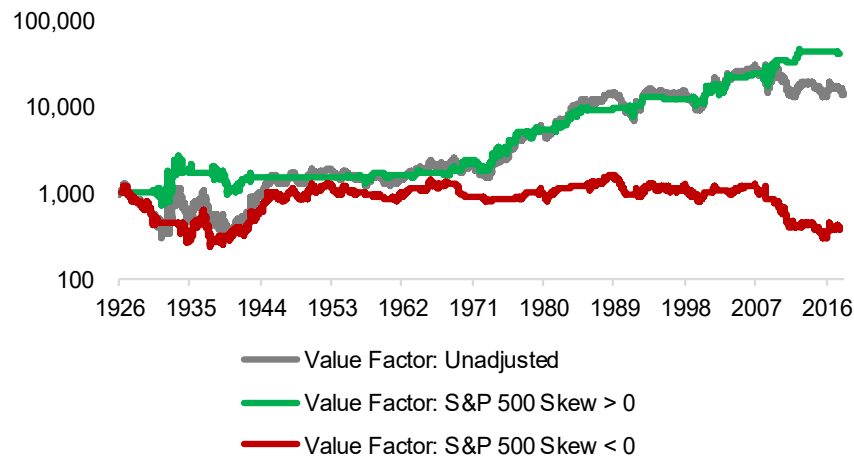
### Comment

- Market skewness can be used to allocate tactically to the Value factor
  - Avoid exposure when skewness is negative
- However, implies years of zero allocation to Value
  - Likely emotionally challenging to execute
- Value & skewness relationship needs to be validated in other markets

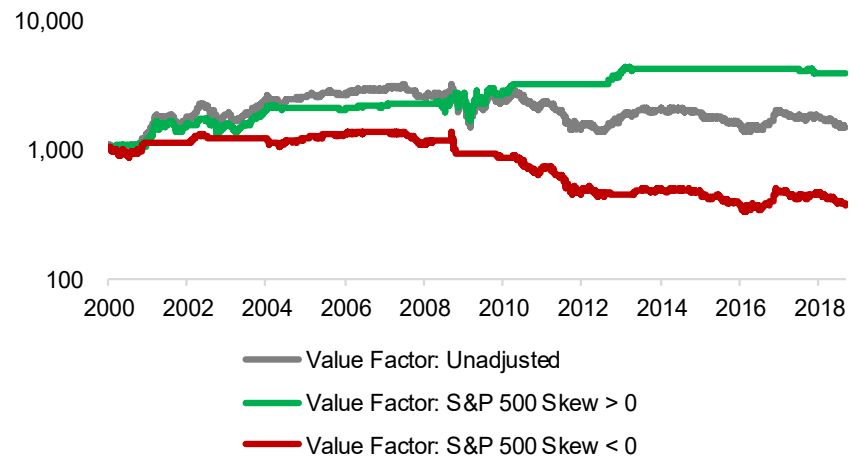
### Value Factor (L/S): Returns Per Annum (1926 - 2018)



### Value Factor and Market Skewness (1926 – 2018)



### Value Factor and Market Skewness (2000 - 2018)



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Research Topic 2:  
Factor Investing in Small & Micro Caps

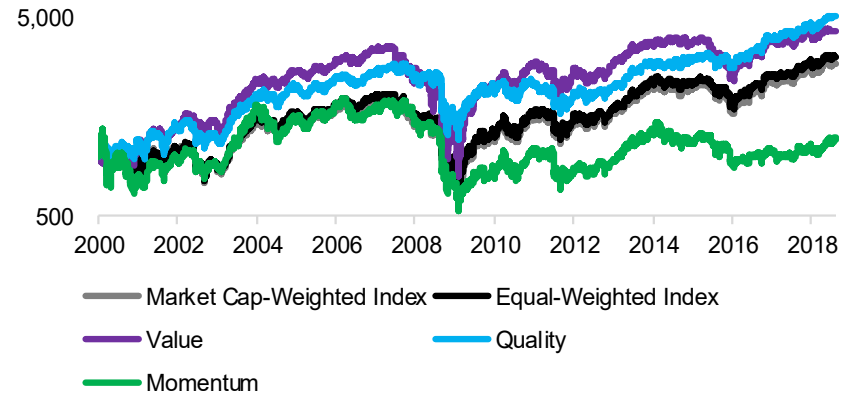
# Factor Investing in Small & Micro Caps (I / II)

## Treasure Hunting in the Wild West of Equity Markets

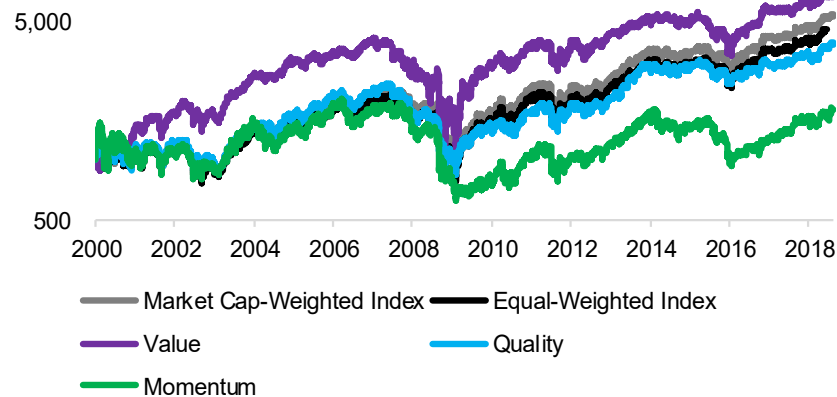
### Comment

- Micro caps are commonly perceived as highly risky, but potentially also highly rewarding
- Focusing on factors improves risk-adjusted returns across market cap segments
  - Quality was most effective for micro caps
  - Value improved returns across all market caps
  - Momentum was significantly impacted by the Momentum crash in 2009

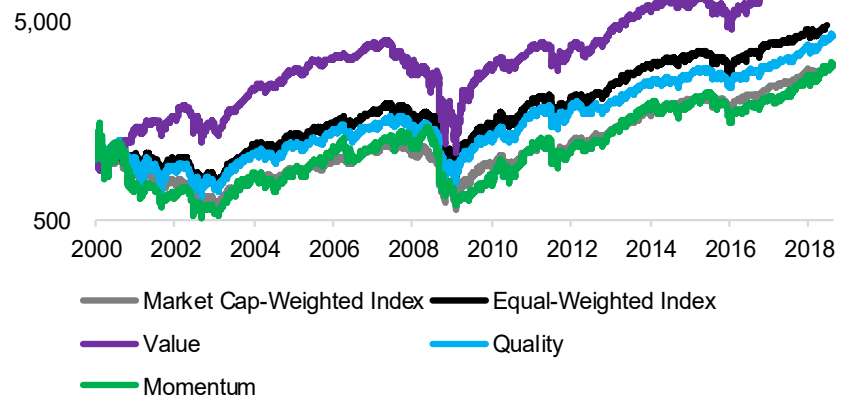
### Micro Caps (\$100m - \$500m Market Capitalisations)



### Small Caps (\$500m - \$1,000m Market Capitalisations)



### Mid & Large Caps (>\$1,000m Market Capitalisations)

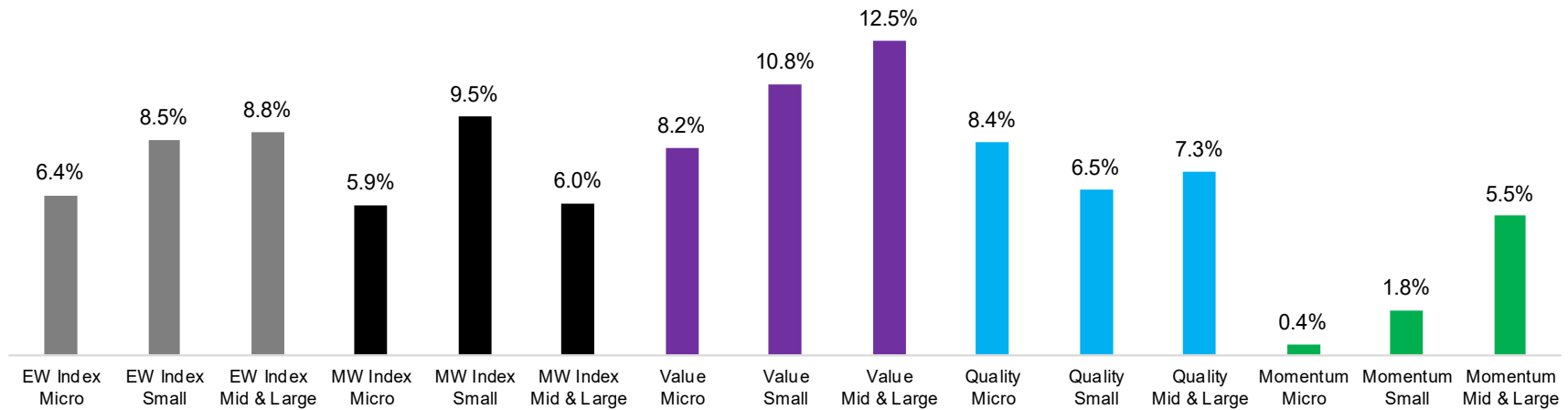




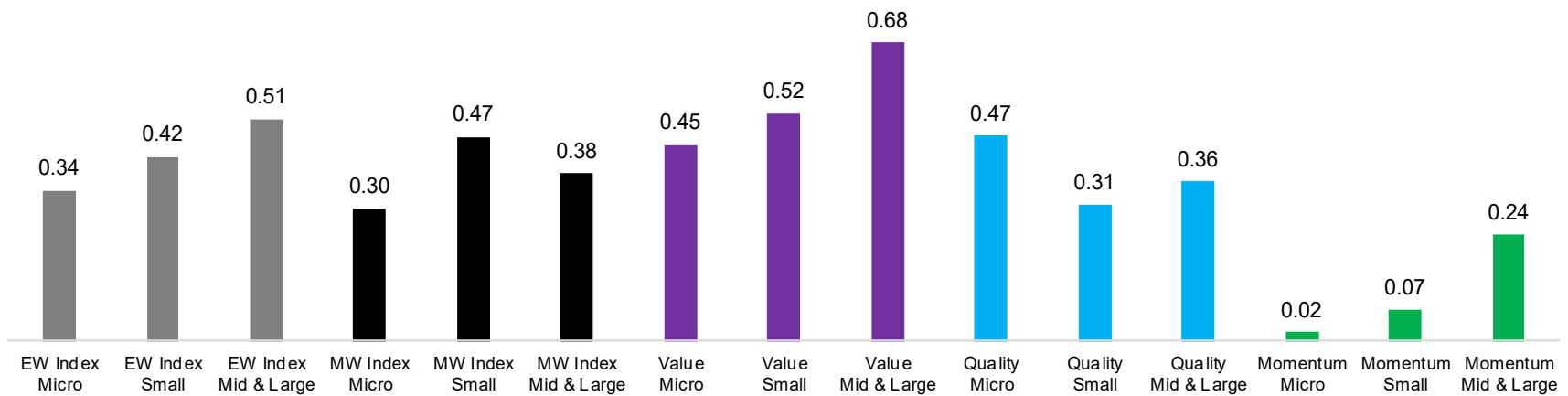
# Factor Investing in Small & Micro Caps (II / II)

## Micro Caps Can Safely Be Ignored

CAGRs: Comparison of Micro, Small, and Mid & Large Caps (2000 - 2018)



Risk-Return Ratios: Comparison of Micro, Small, and Mid & Large Caps (2000 - 2018)



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Research Topic 3:  
Liquid Alternatives: Alternative Enough?

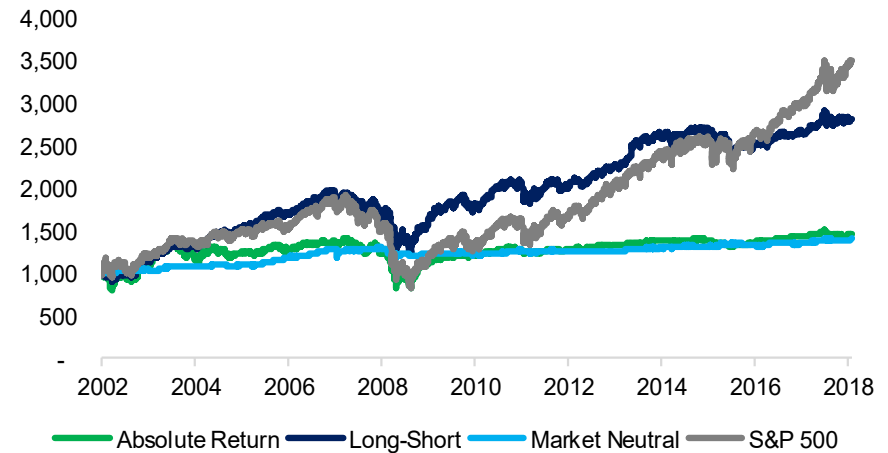
# Liquid Alternatives: Alternative Enough? (I / II)

## Fake Alternatives?

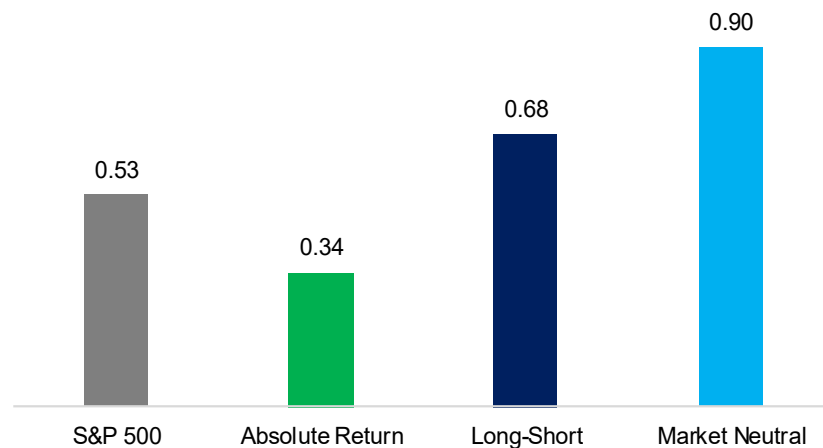
### Comment

- Liquid alternatives offer hedge fund strategies in mutual fund format
- Long/short and market neutral funds generated attractive risk-return ratios
- Absolute returns fund were a failure
  - Perhaps reflects the challenges of timing allocations to various asset classes

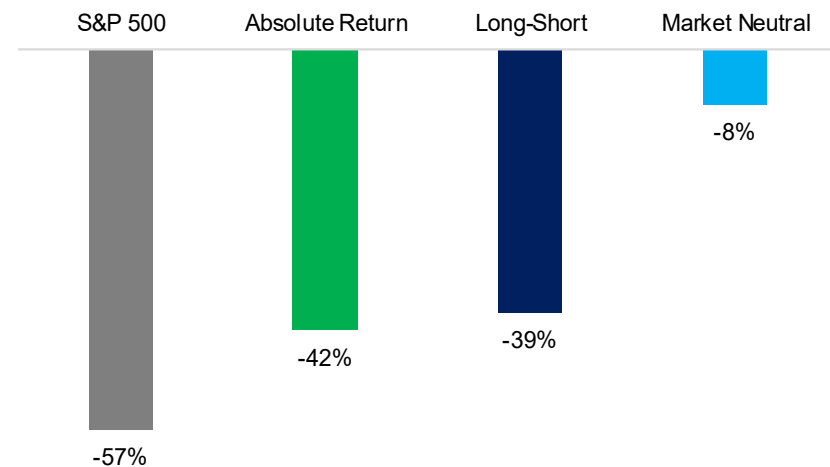
### Liquid Alternatives versus S&P 500



### Liquid Alternatives: Risk-Return Ratios (2002 - 2018)



### Liquid Alternatives: Max Drawdowns (2002 - 2018)



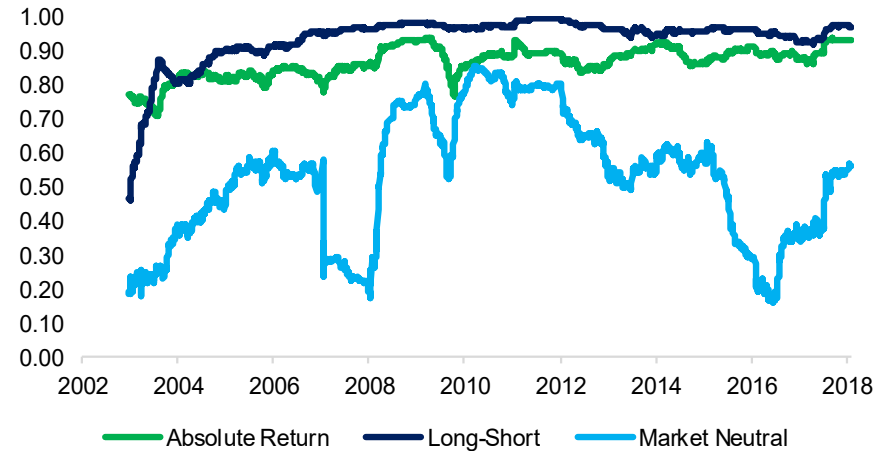
# Liquid Alternatives: Alternative Enough? (II / II)

## Limited Diversification Benefits

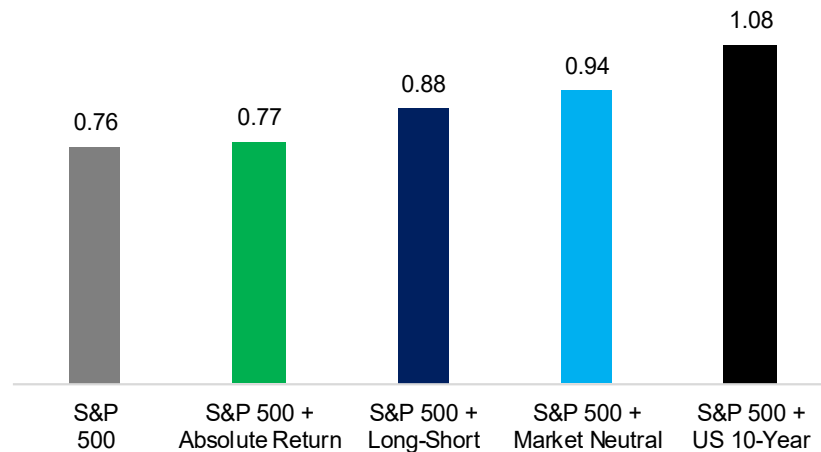
### Comment

- The correlations to the S&P 500 have been high, even of market neutral funds
- Diversification benefits have therefore been limited
  - Allocating to bonds would have resulted in a higher risk-return ratio and lower drawdown
  - However, given rising rates and low bond yields these might be less attractive for diversification going forward

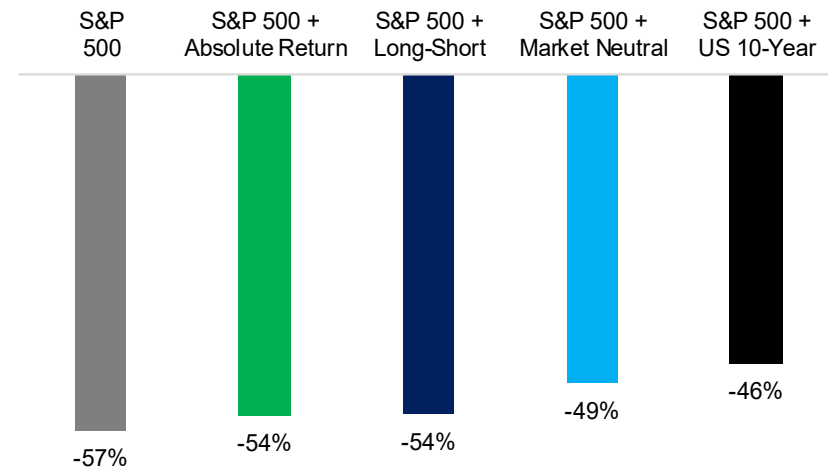
### Liquid Alternatives: Correlations to the S&P 500



### S&P 500 (80%) + Liquid Alts (20%): Sharpe Ratios (2002 - 2018)



### S&P 500 (80%) + Liquid Alts (20%): Max Drawdowns (2002 - 2018)




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Q&A

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Tel: +44 20 7193 4044

FactorResearch  
1-6 Yarmouth Place  
W1J 7BU, London  
United Kingdom

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