HQ Asset Management

Stock selection
HQAM factor of the month: Momentum
July 2021

Momentum – better than Buffett

It is well known that the dumbest reason to buy a stock is because it goes up ... and the dumbest reason to sell it afterwards is because it goes down. At least that's what the (value) investor legend Warren Buffett says. However, momentum strategies that follow these principles have seen significant outperformance in recent years.

The problem

- The successes are undisputed, but which investment region and which period should investors bet on?
- Over the past 20 years, the momentum factor in Europe has outperformed very well, with the 12-month momentum outperforming the 6-month momentum.
- The opposite was true in the US, with results lagging far behind Europe, especially in the 12 month range.

The solution

- Investors shouldn't use the same strategy for all regions. It is better to prefer individual approaches. In this way, you can recognize trend changes over time and adapt your systems.
- With the help of artificial intelligence (AI), the relevant key figures can be selected dynamically and optimally adapted to current market developments.
- In addition, with AI you can determine the relationship between a metric such as momentum and the future return of a stock much more precisely than is possible with traditional methods.

Factor Performances of Momentum Strategies
Investmentstrategy: Top Portfolio vs. Benchmark

Legend:
- MSCI Europa, 12 Monate
- MSCI Europa, 6 Monate
- MSCI USA, 12 Monate
- MSCI USA, 6 Monate
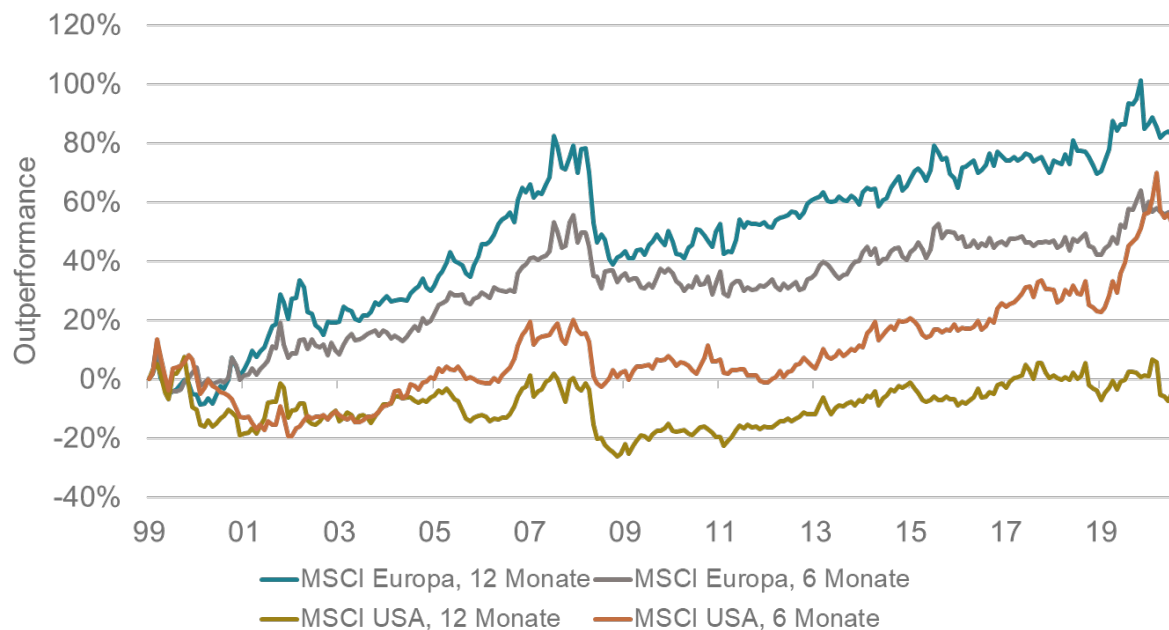
Sources: HQAM, S&P Capital IQ. The analysis refers to the European and US equity universe (MSCI Europe and USA, excluding financials); The factors are calculated monthly based on the values of each company; The top portfolio is defined as the 10% companies with the highest value; The factor is calculated on a monthly basis, adjusted for sector effects; The calculation period runs from November 30, 1999 to June 30, 2021. The companies in the portfolios are equally weighted; The excess return is calculated against the equally weighted universe of stocks.

To the background:
It's no secret that favorites change on the stock exchange - sometimes stocks with a low P / E ratio are in demand, sometimes with high dividends, sometimes small and sometimes large caps. HQ Asset Management (HQAM) deals very intensively with such factors. As part of the research process, HQAM uses artificial intelligence to analyze around 200 factors every month and determine which have been able to best explain the price development of the individual stocks recently - and should continue to do so.

The research team analyzes one of these factors under the heading "HQAM factor of the month". The experts at HQ Asset Management explain the background and context and point out special features that can support investors in putting their portfolio together.

To HQAM:

HQAM is one of the financial service providers of the Harald Quandt family. The company offers a clear focus on quantitative asset management for institutional and semi-institutional investors. As the next generation asset manager, HQAM relies on the use of modern technology, alternative data and methods of artificial intelligence when making investment decisions.

Please note:

Investing assets in the capital markets is associated with risks and in extreme cases can lead to the loss of all of the capital invested. Past performance is not an indicator of future performance. Forecasts are also not reliable in terms of future performance. The representation is not investment, legal and / or tax advice. All content on our website is for informational purposes only.

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