

HQ Asset Management

Stock selection

HQAM factor of the month: 1 + 1 = 3 (interactions are worthwhile)

September 2021

In recent years there have been many factors that have resulted in good investment returns for investors. For example, if you bought small caps, i.e. the shares of small companies, the average performance since 1999 has been 10.3% per year. With the momentum factor, in which the shares of companies with the highest price increase in the past twelve months are bought, an average of 10.8 p.a. was in there.

What if investors had combined the two factors? Then even 14.3% p.a. was possible. This was the case if they had bought small companies with the highest momentum - a classic interaction effect. Large companies with low momentum, on the other hand, would only have achieved an average of 5.7% per year.

The problem

- Investors are faced with the question of which interactions are potentially most profitable.
- To do this, they would have to calculate all possible interactions. With 25 factors, however, there are already 300 possible interactions.
- If you add double interactions, such as size + momentum + value, you already have 2300 interaction options.

The solution

- The problem cannot be solved with simple methods and a lack of computing power - a case for Artificial Intelligence (AI).
- Flexible methods from the field of AI and great computing power can recognize and use the most important interaction effects.

		Momentum			Average
		High	Medium	Low	
Size	Low	14,3%	10,2%	6,6%	10,3%
	Medium	9,9%	7,3%	6,5%	7,9%
	High	8,3%	8,4%	5,7%	7,5%
	Average	10,8%	8,6%	6,2%	

Sources: HQAM, S&P Capital IQ. The analysis refers to the European equity universe (MSCI Europe, excluding financials); Momentum is calculated monthly based on the performance of the last 12 months, excluding the last month, of each company; Size is calculated monthly based on a company's market capitalization; The "High" portfolio is defined as the 30% companies with the highest value; The "Medium" portfolio is defined as the companies with the value in the 30% to 70% percentile; The "Low" portfolio is defined as the 30% companies with the lowest value; The factor is calculated on a monthly basis, adjusted for sector effects; The calculation period runs from November 30, 1999 to August 31, 2021. The companies in the portfolios are equally weighted.

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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