

# HQ Asset Management

## Stock selection

### HQAM factor of the month: traditional factor strategies

#### June 2021

In June, the HQAM factor of the Month is about traditional factor strategies.

Nobel Prize winner Prof. Eugene Fama and Prof. Kenneth French are considered the founders of factor investing. Here, shares are sorted in descending order according to a ratio. But these "simple methods" are increasingly reaching their limits.

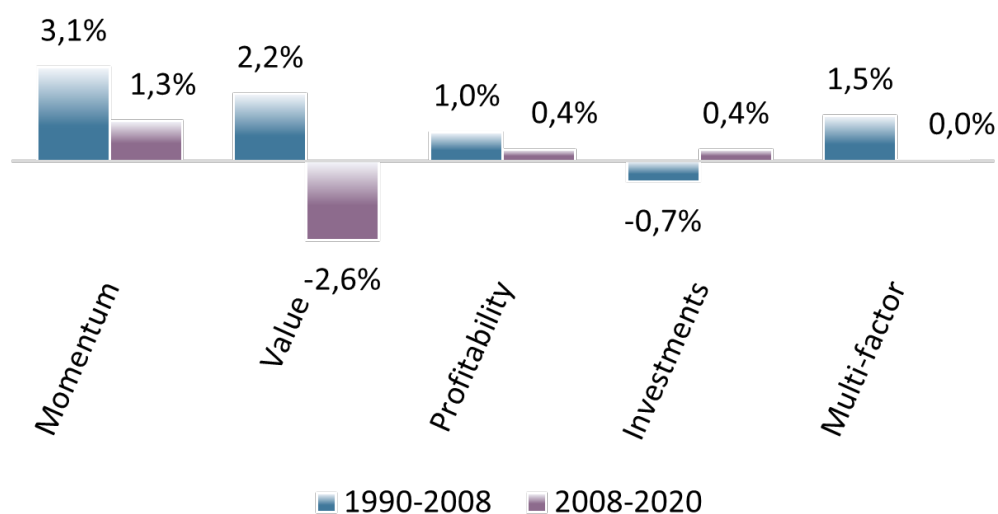
#### The problem

- The returns of traditional factor strategies have fallen significantly in recent years.
- For example, while the momentum factor still had an average annual return of 3.1% before costs from 1990 to 2007, this fell to only 1.3% in the years from 2008 to 2020.
- The average annual return of the value factor even declined from 2.2% to -2.6% in the same period.
- Multi-factor approaches also often no longer offered attractive returns recently.

#### The solution

- "The simple methodology of many traditional, static factor strategies, mostly based on the simple sorting of a single or few metrics, is reaching its limits."
- Technology and artificial intelligence (AI) offer new possibilities for factor investing: It allows relevant key figures to be selected dynamically and adapted to current market events."
- "In addition, with the help of AI, it is possible to determine the relationship between a ratio and the future return of a stock much more precisely than is possible with traditional methods."
- "AI also plays to its strengths when it comes to optimally combining factors into a multi-factor approach, as it is able to take complex relationships between factors into account."

## Performance of traditional factor strategies in comparison



Sources: HQAM, Prof. Kenneth French

([http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data\\_library.html](http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html)). The analysis refers to the European equity universe; companies in TOP 90% and long vs. market: BigHigh - market; multi-factor = average over all 4 individual factors, return = geometric mean; the period of calculation is from 31.12.1990 to 31.12.2020. The companies in the portfolios are weighted according to their market capitalisation.

### 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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