

HQ Asset Management

Stock selection with artificial intelligence

HQAM factor of the month: momentum

March 2021

In March, the HQAM factor of the month is momentum.

The key figure

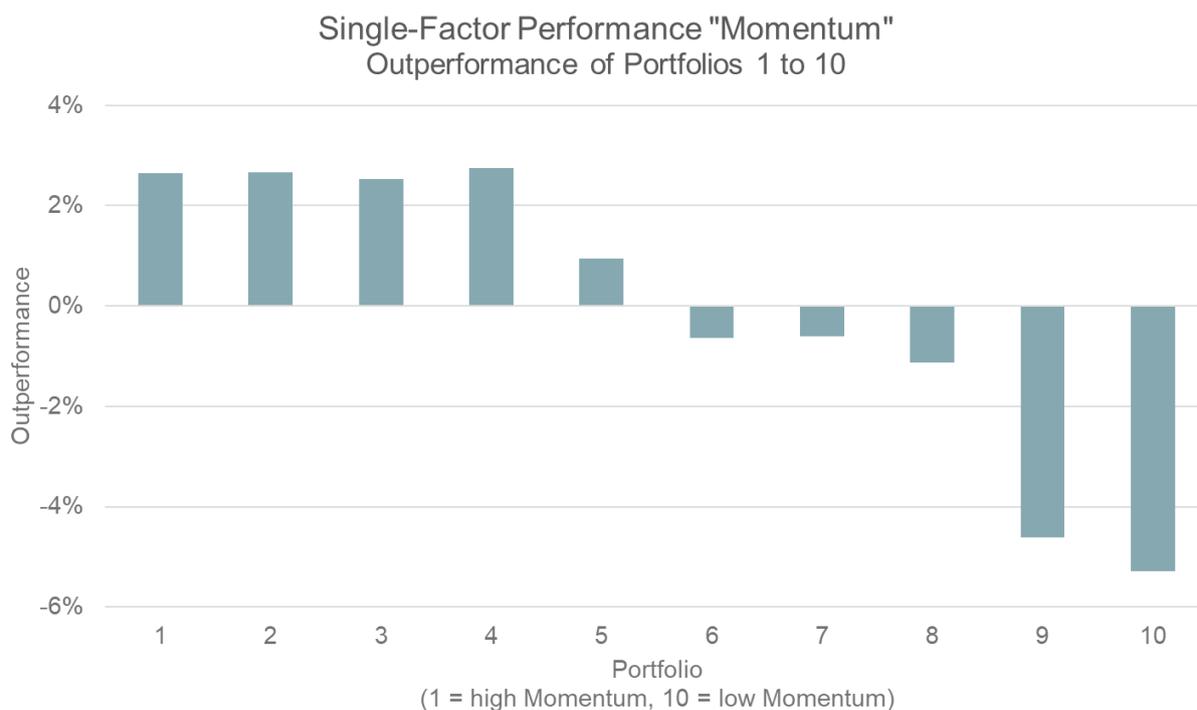
Over the past few months, momentum has been one of the best strategies for picking stocks. The momentum factor is about buying the stocks of companies with the highest price increase over the past twelve months.

The problem

With a monthly recalculation, this factor is one of the most complex to implement, as the portfolio often has to be reallocated.

The solution

- In order to reduce the monthly effort and trading costs, investors can try different rules to adjust the portfolio less if the changes are not large.
- What helps them is the non-linear relationship between return and portfolio in the momentum factor. These relationships can be recognized well with methods from artificial intelligence.
- Specifically, for companies with rising prices in the past ten years, it made no difference whether the investor invested in the best 10%, 20%, 30% or 40%. The portfolio's return was roughly the same.
- That means: Investors do not necessarily have to trade if the companies continue to be in the top 40% in the new month.
- With this approach, investors achieve the greatest profits with the momentum factor, taking into account the transaction costs.



Source: The analysis relates to the European equity universe (MSCI Europe excluding financials); Momentum is defined as: price momentum 12 months; The factor is calculated on a monthly basis, adjusted for sector effects; The calculation period runs from 02/28/2011 to 02/28/2021. The companies in the portfolios are equally weighted; The excess return is calculated against the equally weighted universe of stocks. The figures are annualized.

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.



Christian Maschner, CFA
Executive Partner
HQ Asset Management
christian.maschner@hqam.com



Dr. Benjamin Moritz
Executive Partner
HQ Asset Management
benjamin.moritz@hqam.com



Martin Schmitz, CFDS
Executive Partner
HQ Asset Management
martin.schmitz@hqam.com