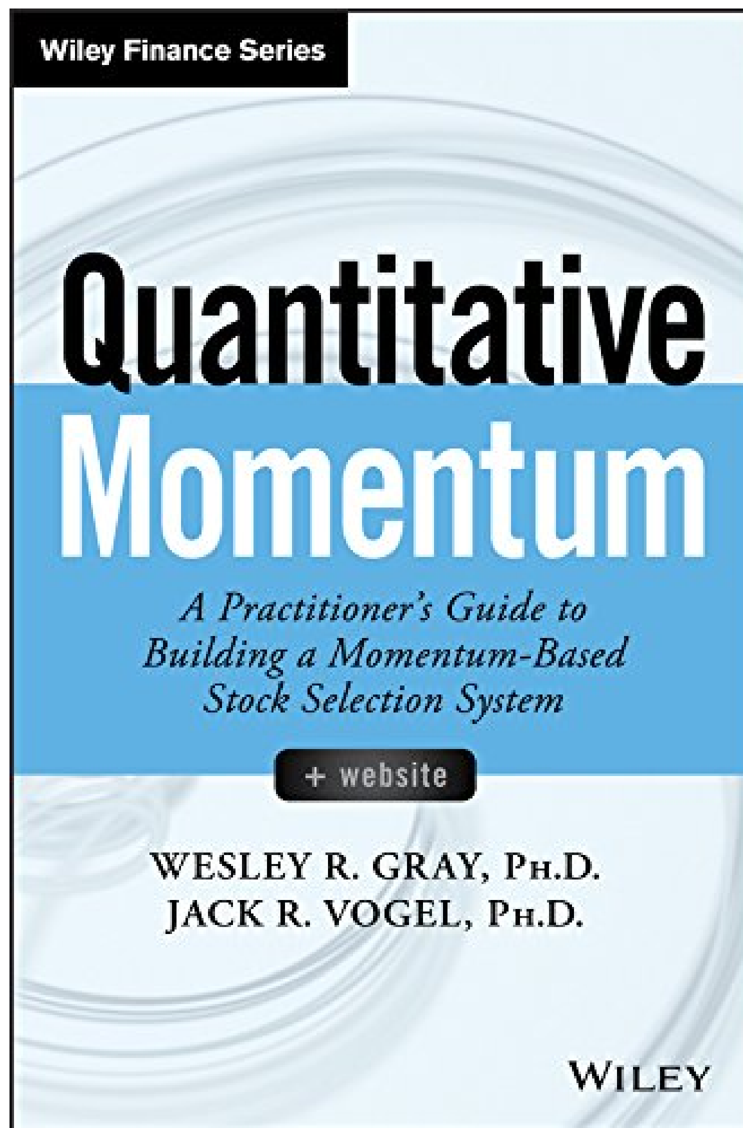
[Download free pdf] Quantitative Momentum: A Practitioner's Guide to Building a Momentum-Based Stock Selection System (Wiley Finance)

Quantitative Momentum: A Practitioner's Guide to Building a Momentum-Based Stock Selection System (Wiley Finance)

Wesley R. Gray, Jack R. Vogel
*ebooks | Download PDF | *ePub | DOC | audiobook*



#98995 in eBooks 2016-09-13 2016-09-13File Name: B01LY6P2LB | File size: 74.Mb

Wesley R. Gray, Jack R. Vogel : Quantitative Momentum: A Practitioner's Guide to Building a Momentum-Based Stock Selection System (Wiley Finance) before purchasing it in order to gage whether or not it would be worth my time, and all praised Quantitative Momentum: A Practitioner's Guide to Building a Momentum-Based Stock Selection System (Wiley Finance):

1 of 1 people found the following review helpful. Robust introduction to momentumBy Club playerGood introduction

to momentum. The introduction to momentum is especially well done. Momentum is a simple concept, but there are some nuances and this books covers many of them.32 of 34 people found the following review helpful. Very informative when it comes to all things momentum on equities.By Ilya KipnisThis will be an in-depth review of Alpha Architectrsquo;s Quantitative Momentum book. Overall, in my opinion, the book is terrific for those that are practitioners in fund management in the individual equity space, and still contains ideas worth thinking about outside of that space. However, the system detailed in the book benefits from nested ranking (rank along axis X, take the top decile, rank along axis Y within the top decile in X, and take the top decile along axis Y, essentially restricting selection to 1% of the universe). Furthermore, the book does not do much to touch upon volatility controls, which may have enhanced the system outlined greatly.So, letrsquo;s start with a summary of the book:Part 1 is several chapters that are the giant expose- of why momentum works (or at least, has worked for at least 20 years since 1993)hellip;namely that human biases and irrational behaviors act in certain ways to make the anomaly work. Then therersquo;s also the career risk (AKA itrsquo;s a risk factor, and so, if your benchmark is SPY and you run across a 3+ year period of underperformance, you have severe career risk), and essentially, a whole litany of why a professional asset manager would get fired but if you just stick with the anomaly over many many years and ride out multi-year stretches of relative underperformance, yoursquo;ll come out ahead in the very long run.Generally, I feel like therersquo;s work to be done if this is the best that can be done, but okay, Irsquo;ll accept it.Essentially, part 1 is for the uninitiated. For those that have been around the momentum block a couple of times, they can skip right past this. Unfortunately, itrsquo;s half the book, so that leaves a little bit of a sour taste in the mouth.Next, part two is where, in my opinion, the real meat and potatoes of the bookndash;the ldquo;howrdquo;.Essentially, the algorithm can be boiled down into the following:Taking the universe of large and mid-cap stocks, do the following:1) Sort the stocks into deciles by 2-12 momentumndash;that is, at the end of every month, calculate momentum by last monthrsquo;s closing price minus the closing price 12 months ago. Essentially, research states that therersquo;s a reversion effect on the 1-month momentum. However, this effect doesnrsquo;t carry over into the ETF universe in my experience.2) Herersquo;s the interesting part which makes the book worth picking up on its own (in my opinion): after sorting into deciles, rank the top decile by the following metric: multiply the sign of the 2-12 momentum by the following equation: (% negative returns ndash; % positive). Essentially, the idea here is to determine smoothness of momentum. That is, in the most extreme situation, imagine a stock that did absolutely nothing for 230 days, and then had one massive day that gave it its entire price appreciation (think Google when it had a 10% jump off of better-than-expected numbers reports), and in the other extreme, a stock that simply had each and every single day be a small positive price appreciation. Obviously, yoursquo;d want the second type of stock. Thatrsquo;s this idea. Again, sort into deciles, and take the top decile. Therefore, taking the top decile of the top decile leaves you with 1% of the universe. Essentially, this makes the idea very difficult to replicatendash;since yoursquo;d need to track down a massive universe of stocks. That stated, I think the expression is actually a pretty good idea as a stand-in for volatility. That is, regardless of how volatile an asset isndash;whether itrsquo;s as volatile as a commodity like DBC, or as non-volatile as a fixed-income product like SHY, this expression is an interesting way of stating ldquo;this path is choppyrdquo; vs. ldquo;this path is smoothrdquo;. I might investigate this expression on my blog further in the future.3) Lastly, if the portfolio is turning over quarterly instead of monthly, the best months to turn it over are the months preceding end-of-quarter month (that is, February, May, August, November) because a bunch of amateur asset managers like to ldquo;window dressrdquo; their portfolios. That is, they had a crummy quarter, so at the last month before they have to send out quarterly statements, they load up on some recent winners so that their clients donrsquo;t think theyrsquo;re as amateur as they really let on, and therersquo;s a bump for this. Similarly, January has some selling anomalies due to tax-loss harvesting. As far as practical implementations go, I think this is a very nice touch. Conceding the fact that turning over every month may be a bit too expensive, I like that Wes and Jack say ldquo;sure, you want to turn it over once every three months, but on *which* months?rdquo;. Itrsquo;s a very good question to ask if it means you get an additional percentage point or 150 bps a year from that, as it just might cover the transaction costs and then some.All in all, itrsquo;s a fairly simple to understand strategy. However, the part that sort of gates off the book to a perfect replication is the difficulty in obtaining the CRSP data.However, I do commend Alpha Architect for disclosing the entire algorithm from start to finish.Furthermore, if the basic 2-12 momentum is not enough, therersquo;s an appendix detailing other types of momentum ideas (earnings momentum, ranking by distance to 52-week highs, absolute historical momentum, and so on). None of these strategies are really that much better than the basic price momentum strategy, so theyrsquo;re there for those interested, but it seems therersquo;s nothing really ground-breaking there. That is, if yoursquo;re trading once a month, therersquo;s only so many ways of saying ldquo;hey, I think this thing is going up!rdquo;I also like that Wes and Jack touched on the fact that trend-following, while it doesnrsquo;t improve overall CAGR or Sharpe, does a massive amount to improve on max drawdown. That is, if faced with the prospect of losing 70-80% of everything, and losing only 30%, thatrsquo;s an easy choice to make. Trend-following is good, even a simplistic version.All in all, I think the book accomplishes what it sets out to do, which is to present a well-researched algorithm. Ultimately, the punchline is on Alpha Architectrsquo;s site (I believe they have some sort of monthly stock filter). Furthermore, the book states that there are better risk-adjusted returns when combined with the

algorithm outlined in the ldquo;quantitative valuerdquo; book. In my experience, Irsquo;ve never had value algorithms impress me in the backtests Irsquo;ve done, but I can chalk that up to me being inexperienced with all the various valuation metrics.My criticism of the book, however, is this:The momentum algorithm in the book misses what I feel is one key component: volatility targeting control. Simply, the paper ldquo;momentum has its momentsrdquo; (which I covered in my hypothesis-driven development series of posts) essentially states that the usual Fama-French momentum strategy does far better from a risk-reward strategy by deleveraging during times of excessive volatility, and avoiding momentum crashes. Irsquo;m not sure why Wes and Jack didnrsquo;t touch upon this paper, since the implementation is very simple (target/realized volatility = leverage factor). Ideally, Irsquo;d love if Wes or Jack could send me the stream of returns for this strategy (preferably daily, but monthly also works).Essentially, I think this book is very comprehensive. However, I think it also has a somewhat ldquo;donrsquo;t try this at homerdquo; feel to it due to the data requirement to replicate it. Certainly, if your broker charges you $8 a transaction, itrsquo;s not a feasible strategy to drop several thousand bucks a year on transaction costs thatrsquo;ll just give your returns to your broker. However, I do wonder if the QMOM ETF (from Alpha Architect, of course) is, in fact, a better version of this strategy, outside of the management fee.In any case, my final opinion is this: while this book leaves a little bit of knowledge on the table, on a whole, it accomplishes what it sets out to do, is clear with its procedures, and provides several worthwhile ideas. For the price of a non-technical textbook (aka those $60+ books on), this book is a steal.4.5/5 stars.11 of 14 people found the following review helpful. Probably couldn't find a better book on stock momentum systems at 4X the priceBy Mark KnechtGiven the right frame-of-mind I think most traders/investors will find this a very useful book. It fits right in beside the author's previous works "DIY Financial Advisor" and "Quantitative Value". (Wesley Gray sans Jack Vogel). It's well written and covers the topic well. It sets up a framework for understanding momentum investing and does a good job IMO of covering the upside - better long-term returns - vs the downside of under-performance for long stretches of time. I felt the authors were honest about how applicable this might be in the real world.That said, I think it's important that folks considering buying the book understand that (in this writer's opinion) the book isn't going to supply you with a turnkey momentum trading system that you can live with day-in and day-out so if that's what you're looking for look elsewhere. What the book does very well, I think, is put you in the space you probably want to be working in for starting your own design of a momentum-based trading system that you can live with as part of a portfolio of systems, momentum being only one, working together.If you're serious about the thinking side of trading momentum and/or if you trade any type of system with holding times in the 1-5 month range then I highly recommend this purchase. I can only imagine it having a positive long-term impact on your results which is what this is all really about anyway.

The individual investor's comprehensive guide to momentum investing Quantitative Momentum brings momentum investing out of Wall Street and into the hands of individual investors. In his last book, Quantitative Value, author Wes Gray brought systematic value strategy from the hedge funds to the masses; in this book, he does the same for momentum investing, the system that has been shown to beat the market and regularly enriches the coffers of Wall Street's most sophisticated investors. First, you'll learn what momentum investing is not: it's not 'growth' investing, nor is it an esoteric academic concept. You may have seen it used for asset allocation, but this book details the ways in which momentum stands on its own as a stock selection strategy, and gives you the expert insight you need to make it work for you. You'll dig into its behavioral psychology roots, and discover the key tactics that are bringing both institutional and individual investors flocking into the momentum fold. Systematic investment strategies always seem to look good on paper, but many fall down in practice. Momentum investing is one of the few systematic strategies with legs, withstanding the test of time and the rigor of academic investigation. This book provides invaluable guidance on constructing your own momentum strategy from the ground up. Learn what momentum is and is not Discover how momentum can beat the market Take momentum beyond asset allocation into stock selection Access the tools that ease DIY implementation The large Wall Street hedge funds tend to portray themselves as the sophisticated elite, but momentum investing allows you to 'borrow' one of their top strategies to enrich your own portfolio. Quantitative Momentum is the individual investor's guide to boosting market success with a robust momentum strategy.

"Systematic momentum investing, as opposed to its complementary cousin value, has not gotten the investor attention it deserves. Wes and Jack fix this problem. Anyone interested in systematic investing should read this book and add more tools to their repertoire." - Cliff Asness, Managing and Founding Principal of AQR Capital Management"Most investors would assume the 'premiere anomaly' is value, when in fact it is momentum. Let Wes and Jack take you through a MBA course on momentum that will have you saying by the end - 'the trend is your friend.'"-Meb Faber, CIO of Cambria Investment Management "Wes and Jack have looked under every rock for an edge and they've found it with momentum. Momentum is the `premier anomaly', so no surprise this is their best book yet. Buy it and read it." - Adam Butler, CEO of ReSolve Asset Management? "Systematic momentum investing, as opposed to its complementary cousin value, has not gotten the investor attention it deserves. Wes and Jack fix this problem. Anyone

interested in systematic investing should read this book and add more tools to their repertoire." - Cliff Asness, Managing and Founding Principal of AQR Capital Management"Most investors would assume the 'premiere anomaly' is value, when in fact it is momentum.nbsp; Let Wes and Jack take you through a MBA course on momentum that will have you saying by the end - 'the trend is your friend.'rdquo;-Meb Faber, CIO of Cambria Investment Management "Wes and Jack have looked under every rock for an edge and theyrsquo;ve found it with momentum. Momentum is the lsquo;premier anomalyrsquo;, so no surprise this is their best book yet. Buy it and read it." -Adam Butler, CEO of ReSolve Asset Management?From the Inside FlapOn the surface, value investors seem to have a polar opposite mindset from momentum investors. Value investors generally buy cheap out-of-favor stocks, while momentum investors buy stocks with strong price trends. But the behavioral biases and career concerns that drive expected excess returns for value investors are the key mechanisms also driving the long-term sustainability of momentum. Quantitative Momentum fully explores exactly how and why systematic momentum investing is a powerful strategy, arguing that momentum investing is potentially more potent than value investing. A long-held secret of Wall Street hedge funds, and other investors savvy about behavioral finance, is that momentum investing was never a "growth" strategymdash;it is, and always has been, a historically successful practice that investors should buy winners, regardless of their growth prospects. With the rigor and educational sensibilities author Wesley Gray used to deliver Quantitative Value, the bible on systematic value investing, Quantitative Momentum is a first-of-its-kind guidebook for the individual investor looking to build a stock-picking platform based on momentum. Specifically, the momentum approach identified is ideal for balancing a deep value portfolio and helps to shorten the multi-year relative underperformance of both stand-alone strategies. See how it works for yourself on an accompanying website featuring tools for finding the momentum stocks described inside, additional research, and access to a dynamic community that follows advances in quantitative investing. Written to empower investors through education, this practical system unfolds in micro-lessons of narrative advice and guidance reinforced by illustrative examples that fully prepare you to do the following: Understand how and why momentum strategies may or may not work in the future Form a portfolio of stocks based on evidence-based momentum stock- selection signals Tactically deploy a momentum stock portfolio in the context of a broader investment portfolio Look no further than Quantitative Momentum to inject PhD-level research and sophistication into your portfolio.