



## TAX AWARE

---

### AQR Factor Research Papers Win Prestigious Academic Awards

March 12, 2024

We've been showing how long-short factor-based investing can be optimized for taxable investors since our 2018 article "[Taxes, Shorting, and Active Management](#)." More [recently](#), we've shown how tax-aware long-short factor strategies can realize a cumulative net capital loss of 100% of invested capital within a few years while, at the same time, substantially outperforming the benchmark index before tax, net of implementation costs. And, even [more recently](#), that these types of strategies, despite achieving substantial tax benefits, mostly trade in accordance with their pre-tax alpha model, which explains their ability to outperform their benchmarks before tax.

A common thread through all this work has been that factor investing (combined with tax-aware implementation) can offer investors substantial rewards in the form of both pre-tax returns and tax benefits. It was, therefore, gratifying to see two papers by our colleagues win two highly prestigious awards from top academic and practitioner journals for their research on factor investing.

"[Is There a Replication Crisis in Finance?](#)" won a 2023 Distinguished Paper Award in the Dimensional Fund Advisors Prizes, which are awarded annually for the top three papers in The Journal of Finance in any area other than corporate finance. The winning papers are chosen by the Associate Editors of The Journal of Finance. In the paper, Theis Ingerslev Jensen and our colleagues Bryan Kelly and Lasse Pedersen show that the majority of factors hold up after they were first "discovered." Not only that, but their efficacy is strengthened (rather than weakened) by the large number of observed factors, are further strengthened by global evidence, and that the seemingly bewildering number of factors can be understood as versions of a smaller number of core themes.

"[Fact, Fiction, and Factor Investing](#)," was awarded the 25th Annual Bernstein Fabozzi/Jacobs Levy Award for Best Article published in The Journal of Portfolio Management during the volume year 2023. Selected annually by its readers, the Bernstein Fabozzi/Jacobs Levy Awards acknowledge and seek to highlight the most innovative and compelling research published each year in The Journal of Portfolio Management. In the paper, our colleagues Michele Aghassi, Cliff Asness, Charles Fattouche, and Toby Moskowitz demonstrate that factor investing is backed by an enormous body of literature, strong out-of-sample evidence, and an economically intuitive rationale. Furthermore, factor strategies provide valuable diversification to traditional markets that is not dependent on market conditions or macroeconomic environments.

Getting back to taxable investing, our long-held view has been that, when seeking tax-efficiency, investors should not sacrifice pre-tax returns or the diversification benefits of factor investing.<sup>1</sup> The real power to compound wealth comes from combining disciplines—best practices in factor investing and thoughtful tax-conscious portfolio management. The prestigious research awards won by our colleagues demonstrate the commitment of our organization to top-notch factor research, which is the foundation of our tax-aware implementation research.

---

[ 1 ] See our post from two years ago: "[Now You Don't Have to Choose Between Diversification and Tax Efficiency](#)."

in the implementation of an investor's own analysis and an investor's own view on the topic discussed herein.

This document has been provided to you solely for information purposes and does not constitute an offer or solicitation of an offer or any advice or recommendation to purchase any securities or other financial instruments and may not be construed as such. The factual information set forth herein has been obtained or derived from sources believed by the author and AQR Capital Management, LLC ("AQR") to be reliable but it is not necessarily all-inclusive and is not guaranteed as to its accuracy and is not to be regarded as a representation or warranty, express or implied, as to the information's accuracy or completeness, nor should the attached information serve as the basis of any investment decision. This document is not to be reproduced or redistributed to any other person. The information set forth herein has been provided to you as secondary information and should not be the primary source for any investment or allocation decision. Past performance is not a guarantee of future performance. Diversification does not eliminate the risk of experiencing investment losses.

This material is not research and should not be treated as research. This paper does not represent valuation judgments with respect to any financial instrument, issuer, security or sector that may be described or referenced herein and does not represent a formal or official view of AQR. The views expressed reflect the current views as of the date hereof and neither the author nor AQR undertakes to advise you of any changes in the views expressed herein.

The information contained herein is only as current as of the date indicated, and may be superseded by subsequent market events or for other reasons. Charts and graphs provided herein are for illustrative purposes only. The information in this presentation has been developed internally and/or obtained from sources believed to be reliable; however, neither AQR nor the author guarantees the accuracy, adequacy or completeness of such information. Nothing contained herein constitutes investment, legal, tax or other advice nor is it to be relied on in making an investment or other decision. There can be no assurance that an investment strategy will be successful. Historic market trends are not reliable indicators of actual future market behavior or future performance of any particular investment which may differ materially, and should not be relied upon as such. Diversification does not eliminate the risk of experiencing investment losses.

The information in this paper may contain projections or other forward-looking statements regarding future events, targets, forecasts or expectations regarding the strategies described herein, and is only current as of the date indicated. There is no assurance that such events or targets will be achieved, and may be significantly different from that shown here. The information in this document, including statements concerning financial market trends, is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons.