



ALTERNATIVE INVESTING

Investing with Style

January 2, 2015

Investors are bombarded by a variety of investment strategies and alternatives from an ever-growing and increasingly complex financial industry, each claiming to improve returns and reduce risk. Amid the clamor, academic and practitioner research has sifted through the vast landscape and found four intuitive investment strategies that, when applied effectively, have delivered positive long-term returns with low correlation across a multitude of asset classes, markets, and time periods using very liquid securities.

The four investment “styles” are Value, Momentum, Carry and Defensive, which form the core foundation in explaining the cross-section of returns of most asset classes. When applied effectively, they have delivered positive long-term returns with low correlation in different markets and in out-of-sample tests across a multitude of asset classes and time periods using very liquid securities.

In this paper, we will describe “style investing,” discuss the intuition and evidence for the four pervasive styles, and detail how to implement a strategy that can access these premia to improve the risk and return characteristics of traditional portfolios.

A skeptic might say “there must be a catch.” There is, of course, but it is a small one that can (and must) be managed. In order to achieve proper risk balance and attain the high returns and low correlation properties investors seek, style investing requires the “three dirty words in finance” — leverage, short-selling and derivatives. For investors willing (and able) to use these risky tools, there is the potential for huge rewards in terms of better and more stable returns.

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