



FACTOR / STYLE INVESTING

A New Core Equity Paradigm

March 1, 2013

Investors have intuitively pursued different investment styles, or strategies, for decades. Many styles have been identified — size and value were among the first to be studied by academics — and practitioners are continually combing markets for evidence of new ones that work as well. Successful styles tend to be:

- Persistent (consistently beats a benchmark across stocks, industries and geographies)
- Systematic (has a process that performs well with different securities)
- Intuitive (there is a logical economic reason why it works)

We have found that three styles are particularly useful in actively managed long-only equity portfolios: value, momentum and profitability. Ample evidence shows that each of these styles can generate long-term excess returns on its own — and go a long way toward explaining why some portfolio managers excel — but research suggests that these styles work even better when united.

Combining successful investing styles to magnify their effects represents a new paradigm in active equity-portfolio management. Rather than pursue the traditional notion of alpha that is rare, fleeting and difficult to scale, a styles-based approach like Core Equities may offer a more-persistent, systematic and intuitive approach. By integrating value, momentum and profitability styles, this approach can yield a diversified, fully invested, long-only portfolio of individual stocks with well-constructed exposures to investing styles that are known to provide better risk/reward tradeoffs than both the broad market and traditional core strategies (which are often too narrow for investors' own good).

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