Tax Aware

AQR Factor Research Papers Win Prestigious Academic Awards

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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. [1] 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.

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

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