# Factor/Style Investing

## Do Industries Explain Momentum?

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The ability to outperform buy-and-hold strategies by acquiring past winning stocks and selling past losing stocks, commonly referred to as "individual stock momentum," remains one of the most puzzling of these anomalies, both because of its magnitude and because of the peculiar horizon pattern that it seems to follow: Trading based on individual stock momentum appears to be a poor strategy when using a short historical horizon for portfolio formation; it is highly profitable at intermediate horizons; and is again a poor strategy at longer horizons.

This paper largely focuses on the positive persistence in stock returns (or momentum effect) over intermediate investment horizons (6 to 12 months) and explores various explanations for its existence. We identify industry momentum as the source of much of the momentum trading profits at these horizons. Specifically, we find strong evidence that persistence in industry return components generates significant profits that may account for much of the profitability of individual stock momentum strategies.

We find a strong and persistent industry momentum effect that does not appear to be explained by microstructure effects, individual stock momentum, or the cross-sectional dispersion in mean returns. Furthermore, industry momentum appears to be contributing substantially to the profitability of individual stock momentum strategies, and, except for 12-month individual stock momentum, captures these profits almost entirely.

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