# Factor/Style Investing

## Size Matters, If You Control Your Junk

September 30, 2018

*Journal of Financial Economics*

When it comes to equity investing, size matters — and in a much bigger way than previously thought — but only when controlling for junk. The authors examine seven empirical challenges that have been hurled at the size effect and systematically dismantle each one by controlling for a firm's quality.

The authors contend that previous evidence on the variability of the size effect is largely due to the volatile performance of small, low quality "junky" firms. Controlling for junk, a much stronger and more stable size premium emerges that is robust across time. These results are robust across a variety of quality measures as well.

We further find that interactions between size and other firm characteristics, such as value and momentum, can also be fully or partially explained by quality versus junk. Hence, the quality of a firm helps clean up the relation between size and the cross-section of expected returns.

These results revive the size anomaly, putting it on more equal footing with other anomalies such as value and momentum in terms of its efficacy and robustness, and dismiss several previous explanations for the size effect. Size should therefore be restored as one of the central cross-sectional empirical regularities, presenting an even further challenge for asset-pricing theory.

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