# First came Value, now their definitive book on Momentum

Quantitative Momentum is a must read for any investor employing a Factor-based approach. Dr. Wesley Gray and Dr. Jack Vogel lay out a clear and compelling case for incorporating Momentum into any equity portfolio, particularly one currently focused on Value. While the philosophies underpinning Momentum and Value appear diametrically opposed to each other, the authors conclusively demonstrate that a portfolio comprised of both Momentum and Value picks will provide superior risk-adjusted return than either Factor alone. The book then details how best to build the Momentum side of such a portfolio (Dr. Gray having already thoroughly examined the Value side in Quantitative Value).

While the nuances of building a properly structured momentum portfolio are definitely important (and indeed the main purpose of the book), the most interesting takeaways for me were these:

**Dispassion in the face of dogma**

Whether it is Indexing, Technical Analysis, Fundamental Analysis, or something else, most investors follow a religion (or in some cases, more of a cult). Unfortunately, most of these investing religions tend to rely far more on behavioral dispositions rather than rigorous analysis. Even successful practitioners of Value investing (which has significant academic evidence to support it) can fall prey to their own behavioral biases and reject Momentum out of hand without considering the academic evidence. As the book details, this is a significant mistake (especially for Value Investors, who surprisingly have the most to gain from devoting a portion of their portfolio to Momentum). While it isn't easy or particularly fun, dispassionately combing through the Investment literature to build a rigorous portfolio is the best and only way to achieve superior returns over the long run.

**Conviction in one's strategy**

The very first chapter is appropriately titled "Less Religion: More Reason." An important addendum to this maxim would be "More Faith in Reason." Once you have identified a strategy (such as Momentum) backed by significant academic research and rooted in exploiting well-known behavioral biases, it is critical to stick with that strategy. As the authors repeatedly emphasize, both momentum and value strategies can experience several years of underperformance at a time. Recognizing that these periods are ultimately transitory (though they can be very painful) and staying true to the stock selection system is the most essential part of Factor investing and thereby earning superior returns over the long run.

**Risk is multifaceted**

If I had to level one criticism of the book, it is that while the authors touch on a variety of different risk metrics that are arguably more useful than simple standard deviation and market beta (including some that fall outside the scope of quantifiable metrics such as career risk), they don't delve into a deeper discussion of which risk metrics are the most pertinent for a practitioner, and how the choice of risk metric can greatly influence portfolio construction. Perhaps this can be the topic of a future book.

**Education is paramount**

As the founder of Hughes Capital Management, educating my clients about Factor Investing and the need for a long time horizon is paramount. Successfully implementing a portfolio based on value, momentum, and other proven Factors is meaningless if your client panics during times of inevitable underperformance and market downturns. The authors highlight the telling case of Ken Heebner's CGM Focus Fund, a very successful fund by any metric, whose average investor still lost money due to bailing at the absolute worst times. Constructing a clear, evidence-based portfolio that isn't a black box is perhaps the most important part of the education process and building trust with the client. Quantitative Momentum, along with their earlier Quantitative Value, provides the foundation for that portfolio.