# January 2026

From Investopedia on January 30th:

… the Dow (+1.7%) posted its ninth straight month of gains and the S&P 500 (+1.4%) also ended January in the green, but the Nasdaq (-0.1%) narrowly closed lower for the second time in three months following seven straight months of gains. The S&P 500 also closed higher for the week, but the Dow and Nasdaq ended in the red for a third consecutive week. The small cap Russell 2000 was up 5.3% for January.

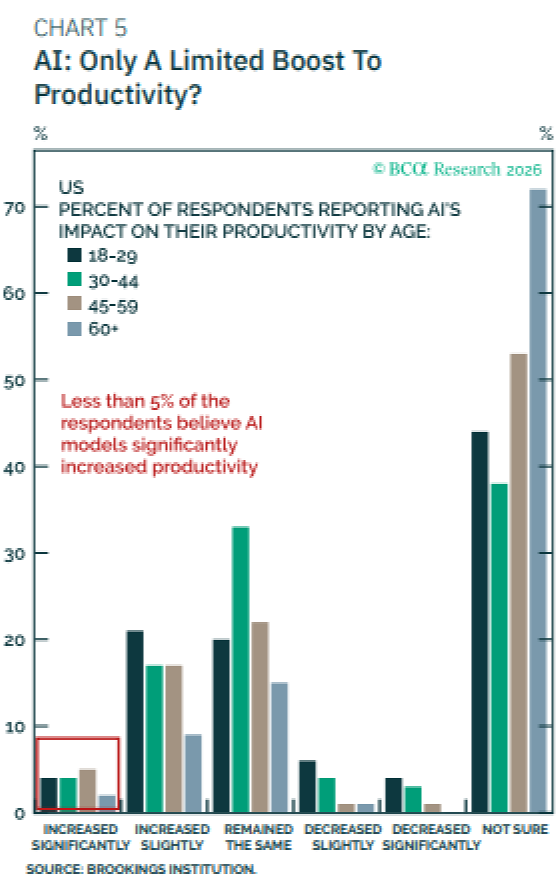
Investors spent the day processing Trump's early announcement that he was picking Warsh to be the next Fed chair. …

Safe-haven gold and silver futures retreated Friday as traders locked in gains after the precious metals soared to their latest record highs yesterday. Gold prices were down 9% to about $4,880 an ounce at 4 p.m. ET after hitting above $5,625 Thursday, while silver futures plummeted 28% to about $82 an ounce after reaching above $121.75 yesterday. Meanwhile, the U.S. dollar index, which tracks the value of the greenback against a basket of global currencies, was up 0.8% at 97.07, rising from more than four-year lows.

The yield on the 10-year Treasury … was trading around 4.25% …. Bitcoin was trading at around $83,900, rising from near $81,000 earlier Friday—its lowest level since last April. West Texas Intermediate crude futures, the U.S. benchmark, were 0.7% higher to around $65.85 a barrel. …

From Global Investment Strategy on Friday:

A bear market is a bit like death: You should expect it to happen, but you should not position for it too early.



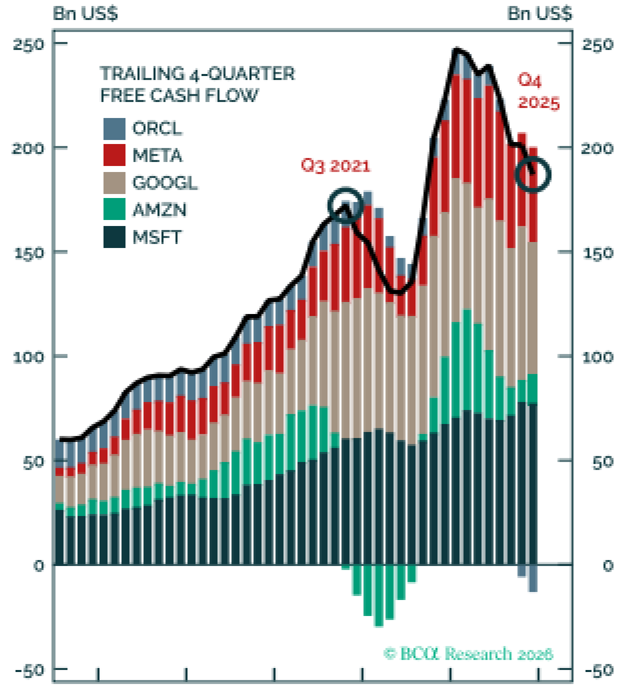

Our central scenario is that the AI boom will turn to bust and that this will drag down the global economy with it. Our best bet is that this will happen later this year, but our conviction around the timing is not very high.

As a result, we remain broadly neutral on stocks and are monitoring a variety of metrics to determine when to turn more cautious. On the AI front, these metrics include:

- **GPU rental rates and memory chip prices**: Rental rates have been trending lower for Nvidia's Blackwell chips, but that is not unusual given that the next generation Rubin chips are expected to be released in the second half of 2026. Meanwhile, memory chip prices have gone through the roof. We expect a shortage of computational capacity to persist through 2026. However, as we discussed in our report on historic capex booms and busts, markets tend to move in anticipation of changes in the supply/ demand backdrop. As such, it is possible that markets will price in the end of chip shortages as soon as this year.

- **AI capex plans:** We will know better once all of the hyperscalers report fourth-quarter earnings, but for now AI spending plans for 2026 are in a solid uptrend. Spending plans for 2027 and 2028, however, appear to have plateaued. The hyperscalers are currently on track to hold around $2 trillion in AI assets by 2030. Assuming a depreciation rate of 20%, this implies they will face $400 billion in annual depreciation charges. This is likely to exceed their combined earnings in 2025. We remain on watch for any downward revisions to AI capex plans.

CHART 6
Free Cash Flow Among Hyperscalers Is Declining



SOURCE: BLOOMBERG FINANCE L.P. Q4 2025 DATA POINT IS AN ESTIMATE.

- **AI adoption rates and productivity gains:** Adoption rates are still rising but at a slower pace than during the first half of 2025. We are optimistic that AI will eventually significantly increase productivity, but echoing Robert Solow's famous observation in 1989 that "You can see the computer age everywhere but in the productivity statistics," it may take longer for AI to generate meaningful efficiency gains than many in the markets are surmising. To that point, most studies suggest that AI has boosted productivity only to a limited extent so far (**Chart 5**).

- **Financial metrics:** Free cash flow among the hyperscalers is declining (**Chart 6**). However, excluding Oracle, operating cash flow still exceeds capex, implying that the other hyperscalers do not have to rely on external financing. A more broad-based deterioration in free cash flow and other financial metrics may be necessary to force investors to start punishing AI companies for excessive capital spending.

The discussion above points to growing risks to the AI trade, but not enough to head for the hills just yet. …

and today:

Almost all bull markets are built on a foundation of truth. With enough time, however, FOMO takes over, causing prices to overshoot fundamentals. This is what has happened to gold and silver, and increasingly to other metals as well.

In the case of gold, currency debasement is a legitimate threat: The US government is running a large budget deficit. Unless corrective action is taken, debt levels and interest payments will only rise over time **(Chart 1)**. Foreign investors hold $69 trillion in US assets. President Trump's policies are leading some of those investors to trim their holdings, which has put downward pressure on the dollar. Meanwhile, foreign central banks continue to accumulate gold. While the physical volume of gold purchases has dipped, the dollar value continues to increase.

Central banks are not major buyers of silver, but the white metal does have a number of industrial applications. Most notably, it is used in semiconductor packaging and power device assembly. It is also used in the production of solar panels. This links it to the potent AI/power generation themes ….

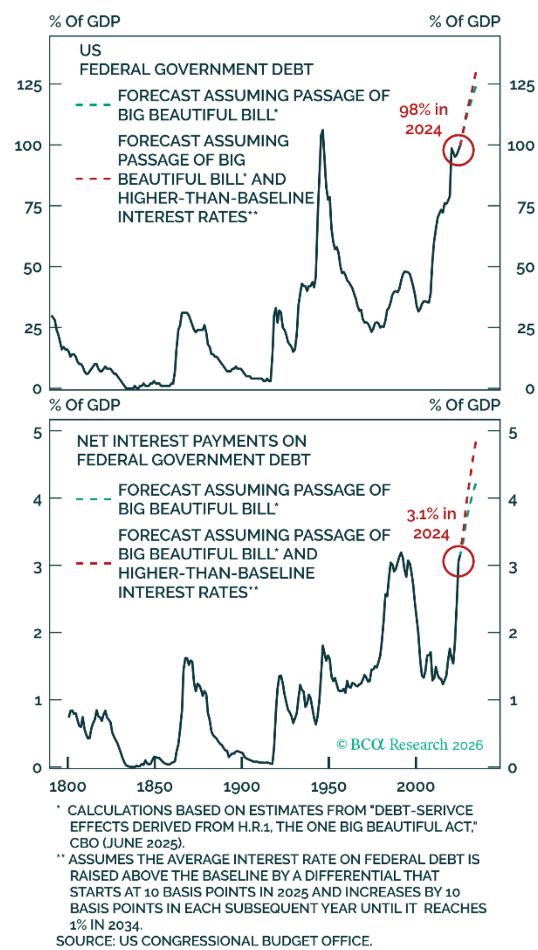
All this said, most metal prices have run up too far, too fast.

Regarding gold, while the narrative around the debasement trade is compelling, it is worth noting that long-term inflation expectations have remained reasonably stable. Bitcoin, which many have dubbed “digital gold,” has not participated in the “debasement trade” at all.

President Trump’s nomination of Kevin Warsh only adds to the downward pressure on gold prices. While Warsh claims he will push for lower rates, he was famously opposed to QE in 2010, the last time gold was in the throes of a bull market. …

As for silver, its various industrial uses notwithstanding, it is hard to escape the conclusion that its meteoric rise and subsequent fall were amplified by speculative Chinese trading plus a bunch of Crypto Bros getting bored with Bitcoin and moving their money into silver. …

Chart 1




Two from WSJ:

# An Investor’s Guide to the Boom (and Bust) in Gold and Silver

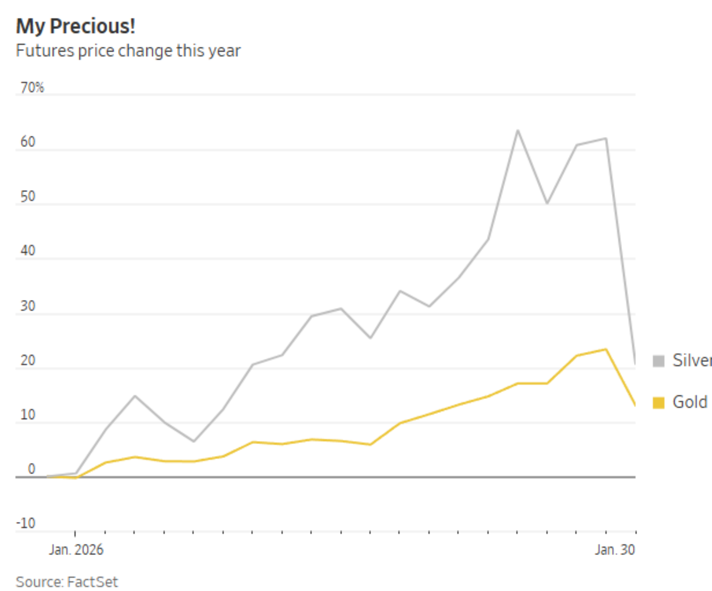
Friday’s plummet in precious-metal prices shows the danger of being late to a rally that has gone far beyond reality

*By James Mackintosh*
*Feb. 1, 2026*

What if, and bear with me here, the wild gyrations in gold and silver prices are actually telling us something?

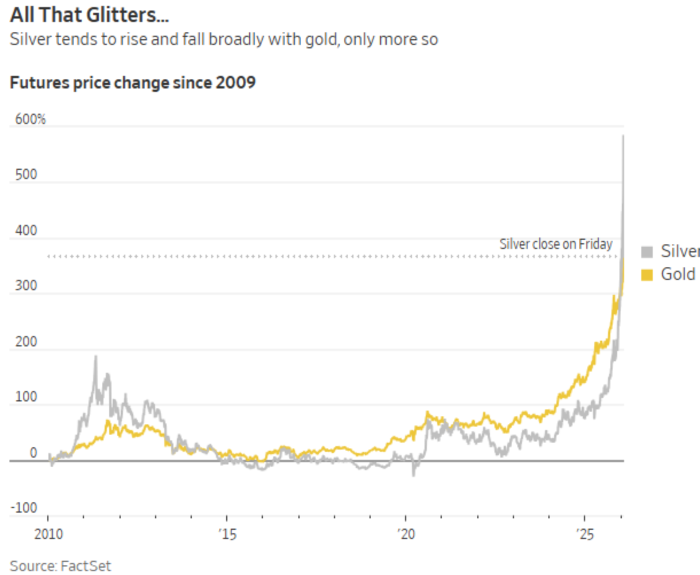
There are three plausible messages from the rise in gold prices. I’m not convinced that any of them provide a full explanation for what’s going on.

But all have a grain of truth, and tell us something about how investors in stocks, bonds and currencies are navigating a very uncertain time in the world.




**1) Investors want gold as a dollar alternative**

Countries that fear falling afoul of Western sanctions have been buying gold rather than dollars for their foreign-exchange reserves for several years. But last year, central banks reduced their buying as prices jumped, according to the World Gold Council.




Instead, buying lately has been dominated by private investors, especially via exchange-traded funds. They might simply be scooping up gold expecting that worried central banks will intensify their buying at a still-higher price, but at best that's a hope.

If they're right, gold should be rising as the dollar falls against other currencies. In fact, gold has moved independently of the dollar day to day in the past year, although overall the dollar is down a lot while gold has gone wild.

Treasury yields should also rise relative to other countries as money leaves America. But U.S. 10-year Treasury yields have fallen a little since the start of last year, while those of Japan, France, Germany and the U.K. are all up, in some cases by a lot.

**2) The 'debasement trade'**

An idea that appeals to a lot of those scarred by the last bout of inflation is that another is on the way, caused by hefty government stimulus and a deliberate policy of weakening the dollar. A weak dollar is mechanically good for gold, since it is priced in dollars, while gold is often touted as a safe asset to sit out inflation. The Swiss franc, the closest thing to a haven currency, has also performed well in the past couple of weeks, along with the low-debt oil-exposed Norwegian krone.

Friday's plunge in gold and full-blown crash in silver prices support the idea that investors were worried about debasement. The drops came as President Trump chose Kevin Warsh to chair the Federal Reserve. He is seen as less likely to slash rates than the other Kevin in the running, Kevin Hassett.

Prices moved on the day mostly as you should expect from the selection of a hard-money hawk, or the avoidance of a soft-money dove: Stocks, gold and silver fell; the dollar and long-term Treasury yields rose. The exception came from the nuance that Warsh wants to sell the Fed's stockpile of Treasurys, but has turned dovish on interest rates, so 2-year Treasury yields fell a little.

Stimulus from President Trump's tax cuts should be in the tens of billions of dollars this year, something likely to boost consumer spending, shore up the economy and make inflation a little higher than it otherwise would be.

The trouble is that inflation fears should have shown up in bond markets, and they just haven't.

Long-term inflation expectations, measured by the break-even for the five years starting in five years' time, have actually dropped this year and are lower than at the start of last year.

Why would debasement fears only show up in precious metals? Indeed, the Swiss franc moved against the dollar exactly in line with the euro until Japan's snap election two weeks ago, suggesting no obvious investor flight to currencies perceived as debasement-proof before that.

Fear of a far weaker dollar in the future ought to help U.S. stocks, too. While hardly a haven from inflation, stocks ought to have some protection both due to foreign earnings and because sales should rise with consumer prices. Instead, U.S. stocks lagged far behind overseas stocks both this year and last year.

**3) A global boom ignites inflation**

The growing confidence in global growth has led to markets that act a lot like the years before the 2008-09 financial crisis.

From 2001 to 2007 investors chose foreign over U.S. stocks, smaller companies over larger, and preferred cheap value stocks to growth stocks. Strong economies boosted copper demand, and the price soared.

Gold thrived, too, rising from $273 an ounce at the start of 2001 to $634 by the start of 2007, before the crisis came into view.

The same happened for the past couple of months as investors fell out of love with Big Tech's spending on artificial intelligence. Then this year small stocks smashed the biggest, silver surfed a wave of private buying and gold jumped 21.8% in the first 21 trading days of the year, the most over such a period since late 1999. Copper was already on a roll thanks to data-center construction, but since November soared another 20%, before having its worst day on Friday since the Trump tariffs last April.

Stronger global growth is a reasonable thing to argue for, given Japan's promised tax cuts, huge military spending in Germany, hopes for at least some China stimulus and the possibility of peace in Ukraine.

But it doesn't really explain why the dollar fell this year exactly as much against the yen, where new stimulus is the driving force, as against the euro, where stimulus was baked into the price last year, or sterling, where nothing changed. It certainly doesn't justify the tripling in the price of silver in 12 months.

Gold has a role in all these stories, but the scale of the moves, combined with the soaring and crashing of silver, shows a lot of froth.

Like the grit in the oyster, there's a solid core of truth inside the vanity of wild price swings. But Friday's plummeting precious metal prices show the danger of being late to a rally that has gone far beyond that truth.

# The High Price You Pay to Get on Board Hot Companies Before They Go Public

Investment vehicles promote access to coveted stocks, but the costs and complexity can be shocking

*By Jason Zweig*
*Jan. 30, 2026*

"I keep hearing about 'democratizing' access to private assets," says John DiCarlo, a Wall Street Journal reader. "But nearly all of it seems to be on the fee sharks' terms."

DiCarlo, an engineer in the Washington, D.C., area, recently reached out to me because he has been trying—with no luck—for at least two years to buy a stake in private companies before they launch an initial public offering of their shares.

For me, his dilemma epitomizes both the potential and pitfalls of investing in private assets. Who wouldn't want to get an early stake in the companies creating the future? But the democratization of private markets is about as problematic as the democratization of former dictatorships. We have a long way to go before individual investors can participate with ease and at a competitive price.

Firms such as EquityZen, Forge Global, Hiive and Nasdaq Private Market have made considerable progress in making information available on their websites and apps. For hot, "pre-IPO" companies expected to go public soon, such as SpaceX, OpenAI or Anthropic, you can track share prices over time, see what's available, and seek to transact in shares or in other investment vehicles that track their performance.

But you're more likely to be struck by lightning than you are to buy shares directly in most pre-IPO companies.

Regulations generally discourage private companies from taking on more than 2,000 shareholders of record. And you have to be a so-called accredited investor with at least $1 million in net assets, excluding your primary residence, or at least $200,000 in individual or $300,000 in joint income.

The most common form of access is often called a special-purpose vehicle. Some managers of SPVs, knowing they're among the few ways to buy into coveted pre-IPO companies, charge fees that would make a bandit blush.

SPVs can bear upfront fees that could hit 5% to 12% or more, say industry executives. Some also charge performance fees that take 10% to 30% of any gains. The highest costs are hard to overcome, says Tom Callahan, chief executive of Nasdaq Private Market. "You better hope that company 10X'es or your return will be eroded away in fees," he says.

Less-expensive alternatives are becoming available, but they still aren't cheap compared with the costs of investing in public markets.

Hiive, for instance, offers single-stock SPVs that hold shares in such private companies as Databricks or xAI, with no management or performance fees. Purchase fees run from 1.85% (on amounts above $1 million) to 5%. If you sell, you'll pay a commission of up to 4.9%.

At least you can sell those. For most SPVs and similar pre-IPO vehicles, no secondary market exists. Some vehicles explicitly warn that you might never be able to sell. Other risks abound.

DiCarlo says he would be happy to pay "a large one-time fee" to buy and hold such firms as Helion, Anthropic, Stripe, Cerebras or Groq—for as long as 10 to 25 years. But it's virtually impossible to find an SPV or other vehicle that doesn't assess many more costs than a one-time fee.

And while high costs are certain, future returns are a crapshoot.

Consider one offering, Series 62-1, from a firm called StartEngine. Series 62-1 was formed to invest in Grammarly, an online writing app. An unnamed affiliate of StartEngine bought Grammarly shares in September for the equivalent of $14 a share; Series 62-1 then agreed to buy them at $20.

So investors in Series 62-1 paid a 43% premium over the previous price. In addition, according to the offering document, the manager will take 20% of any future gains—and "may be entitled to receive" an annual management fee. The amount of that possible fee isn't specified.

Grammarly has since been renamed Superhuman. If it were to go public and hit $140 a share, or 10 times what the StartEngine affiliate paid, investors in Series 62-1 would make a sevenfold gain, and the manager would take a fifth of that along the way.

Unfortunately, industry executives say Superhuman is sparsely traded, with bids well below $15 a share.

StartEngine didn't make anyone available to comment.

"I'd be hard-pressed to think anybody would want an investment with so much upfront markup on it," says Doug Kinsey, founding partner at Artifex Financial Group, an investment-advisory firm in Dayton, Ohio. "When your costs are this high, the odds are stacked against you."

Or consider a new offering from Republic, which enables you to "invest in the performance of SpaceX," according to Republic's app and website. The minimum investment is $100.

The investment comes in the form of cryptocurrency tokens priced at $2 apiece. Their value, says Republic, should synthetically replicate, or "mirror," the return on SpaceX shares. And how would that happen?

The proceeds of the offering, which seeks to raise up to $25 million, won't go to purchase equity in SpaceX. Instead, you get an unsecured, 10-year debt obligation, with no regular interest payments, issued by a Republic affiliate.

The proceeds—after 23% is deducted for expenses—will fund "the further development of the tokenization business" of a Republic affiliate, says Hassan Asif, a Republic executive.

Then there's a 3.5% one-time "administrative fee."

Each $2 token entitles you to a $1 position in the debt offering. In plain English, you're paying a 100% entry charge.

Republic doesn't explain exactly how it will invest so the tokens can mirror SpaceX's shares, saying that its offering is "designed to reference the economic performance" of the stock.

No wonder DiCarlo says, "I generally fear I'll need a lawyer and an accountant if I sell a $50,000 investment 20 years from now, even if it ends up worth $5,000."

For individual investors, the promise of this market is great. So far, the perils are even greater.

# Follow-ups

Two from WSJ. On Jan. 26th:

## Is Small Beautiful Again in the Stock Market?

*By Spencer Jakab*

**It's the Little Things**

Stop us if you've heard this one before: Small cap stocks are finally breaking out.

The most widely followed benchmark for small U.S. companies, the Russell 2000 Index, just did something it hasn't in decades. It beat the large cap S&P 500 for 14 days in a row through last Thursday.

The more diminutive the firm, the better its performance was over that stretch. A group of even tinier microcaps outperformed the S&P 100, made up of the largest companies, by almost 12 percentage points.

That's remarkable, but small stocks have broken a lot of hearts the past few years. They took off during 2021's meme-stock mania and as recently as July 2024, sparking hope the neglected category was finally getting some love. December or early January often see brief rallies too after tax-loss selling wraps up.

Nobody can say whether the momentum will continue this time, but small stocks look like an opportunity for patient investors. The S&P 600 small-cap index trades at around a 25% discount on forward earnings to its large-cap stablemate, the S&P 500, and an even bigger one compared to the Magnificent Seven companies that have led market gains.

That gap might be appropriate if it means accepting slower growth. It probably won't this year, according to Francis Gannon, a small-cap veteran and co-chief investment officer at Royce Investment Partners.

"The earnings story is the reason to own small caps," says Gannon, who points to tailwinds like the profit boost from new depreciation rules and a greater benefit from falling interest rates. Smaller companies are more likely to have floating-rate borrowings so the 2022 rate hiking cycle was much harder on them.

Despite their recent sad-sack reputation, small caps have long been a fruitful part of the market. A dollar invested in them since the late 1920s has grown nearly five times as much as one in the S&P 500 or its predecessor index.

That isn't ancient history either: Between 2000 and 2021, the S&P 600's total return was more than twice that of the S&P 500.

But the last four years, beginning when the Fed started raising rates, have been abysmal. Since late 2022 in particular, the mega-cap Magnificent Seven has provided much of U.S. stocks' overall return.

Whether or not that concentration concerns you, owning the entire market, maybe even with an extra nod toward its overlooked small-fry, could be a profitable decision.

On Jan. 16th:

## Why Meme Stocks Still Matter

*By Spencer Jakab*

Five years ago, a failing videogame chain's stock became the most traded and talked-about security in the world.

However exciting or ridiculous GameStop mania seemed to you at the time, it was an event that tilted the investing world on its axis. The effects have lasted well after the mania fizzled.

The original squeeze, and Keith Gill's (aka Roaring Kitty's) rise to fame, was painted as a David versus Goliath battle because a huge hedge fund was humbled. But that crazy few weeks mostly enriched Wall Street. The speculation that it encouraged is a gift that keeps on giving.

Brokers, crypto promoters and even the residents of a few C-suites have reaped fortunes. Given the mostly awful returns for speculators, why do they keep playing?

Well, people return to the racetrack, too: Memories of past wins are seductive.

Author Kyla Scanlon had a fascinating take on why young people are especially engaged in a Journal guest article last month: It's "financial nihilism," she says. Gen Z isn't naive or innumerate—it feels financially hopeless, so it bets on long shots.

"When people start treating the economy like a game, it's a sign that the traditional ways of winning no longer feel real."

And while middle-aged people stay mum about bad investments, it's almost a badge of honor for some younger ones since GameStop mania. Sometimes it's juvenile—like Jackass, but with money. For others, it's taking one for the team against imaginary, nefarious forces, as with Opendoor's "Open Army" or AMC's "Apes."

A few companies have fans who pumped their valuations to a size that affects markets for everyone—like GameStop on steroids. MicroStrategy was worth multiples of its bitcoin holdings and more than $100 billion at its peak. Palantir's market value topped half a trillion dollars at an almost impossible-to-justify 150 times sales.

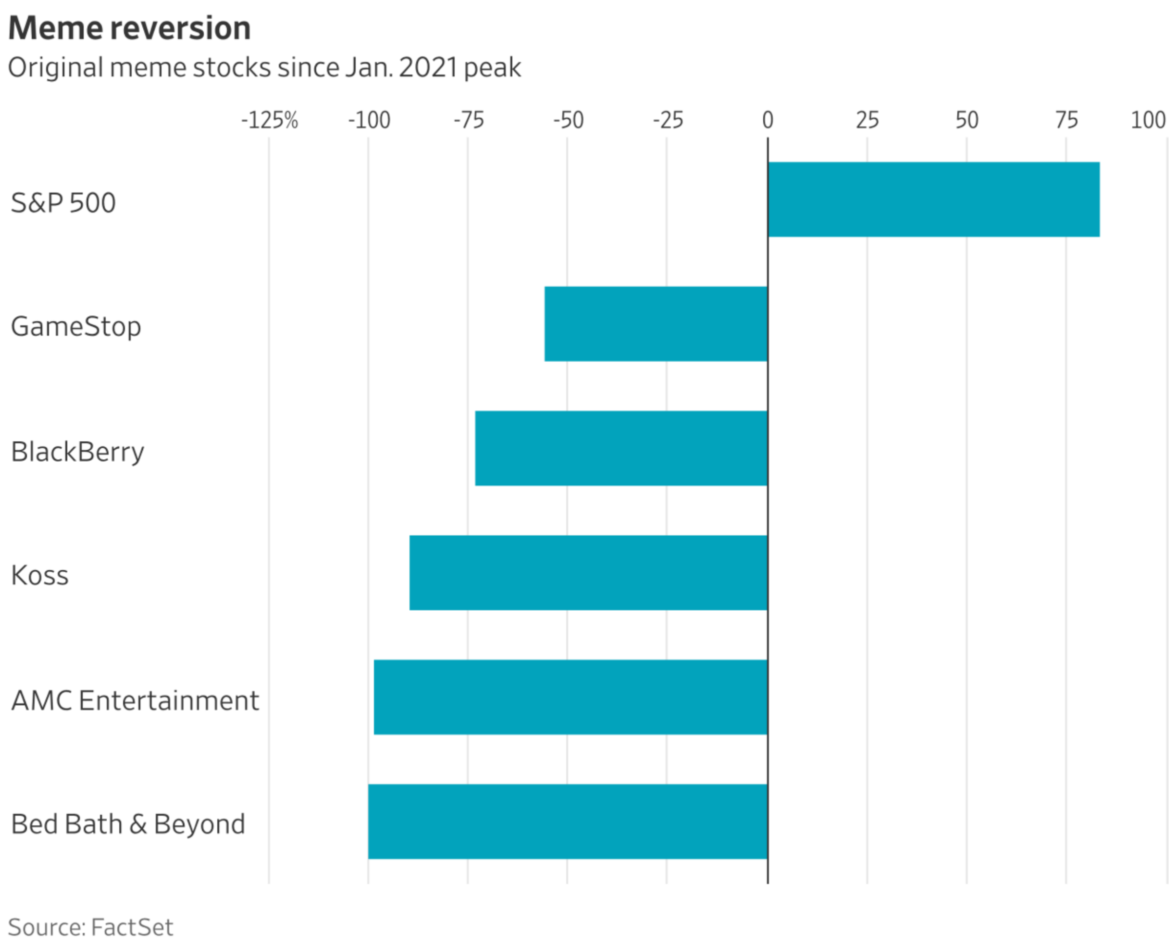
That's enough to influence passive index funds. For investors who respect the market's collective wisdom, there's an ingrained belief that a rising stock means something.

Some meme stocks create their own reality by becoming valuable enough to raise money cheaply and then plow that capital into a viable business. It enriches those who got in early.

Tesla may have been the original meme stock as it rode Elon Musk's charisma and fame from losing money to becoming more valuable than every other car company in the world combined.

Hedge funds have gotten good at mining social media to anticipate and profit from "YOLO" trades. It's tempting for individual investors who think they can sell to a greater fool to dabble, too.

Try the racetrack instead—at least you'll get some fresh air.




From WP:

# Washington, stop pretending crypto is something it isn't

Treating crypto like real money could prove disastrous for the whole financial system.

January 20, 2026

By Paul Winfree

*Paul Winfree is president and CEO of the Economic Policy Innovation Center.*

Financial bubbles require investors to suspend a clear-eyed assessment of what an asset is actually worth. That suspension is often helped by appeals to economic progress, patriotism or financial modernization. The crypto bubble that is now forming displays all three characteristics. What makes it particularly concerning is the Trump administration's role in promoting it. The federal government's embrace of crypto as a favored asset class threatens to turn speculative enthusiasm into something far more destructive.

Economists William Quinn and John D. Turner, experts on financial manias across centuries, argue in their 2020 book that bubbles require three ingredients: speculation, marketability, and cheap money and credit. Politics or new technology can provide the spark. When all of these align, asset prices detach from fundamentals and feedback loops take over. Crypto checks every box.

The speculation is obvious. Changes in cryptocurrency values are driven by little more than vibes. Crypto is highly marketable — easy to buy, easy to trade and increasingly easy to hold through platforms that provide the appearance of safety. And cheap money has been abundant for 15 years, with expectations of more at just the hint of economic slowdown.

What is new is the political accelerant. The Trump administration has embraced crypto as a strategic priority. This posture, combined with legislative efforts such as the Genius Act, signals that crypto carries a federal endorsement. That signal lowers perceived risks, encourages leverage and draws capital that would otherwise flow to other investments.

Politics has ignited bubbles before, but the scale of a crypto bubble could rival or surpass the U.S. housing bubble that led to the 2008 financial crisis. Crypto's market capitalization is above $3 trillion. This is a large, volatile asset class being pushed toward the financial mainstream by government action.

Crypto, however, is not money. Treating it as such introduces two significant risks.

The first is institutional. Once an asset begins to resemble money, it does not remain purely private. Regulators begin viewing it as systematically important, and when a bubble bursts, pressure for intervention becomes overwhelming. The Federal Reserve's emergency lending authority was intended for rare circumstances, but its recent use has expanded when policymakers concluded that allowing markets to absorb losses was politically unacceptable.

That risk grows when the federal government lends crypto its credibility. Talk of a strategic crypto reserve or preferential regulatory treatment creates expectations in the market. Expectations harden into assumptions. Assumptions become liabilities in a downturn. Markets behave rationally when they infer the government has a stake in an asset's survival.

If crypto continues down this path, it is easy to imagine a future crisis with officials arguing that a collapse would threaten payments, markets or confidence broadly. At that point, the question will not be whether crypto deserves a bailout, but whether the Fed can credibly refuse one.

The second risk is macroeconomic. If crypto becomes a genuine money substitute, the effective money supply expands by the full value of crypto in circulation — at current valuations, a multitrillion-dollar increase in liquidity operating outside of Fed control.

Money is defined by use. If households and firms treat crypto as a medium of exchange or store of value, it functions as money whether policymakers intend it to or not. Unlike bank deposits, however, this parallel system does not respond to monetary policy.

That matters for inflation. A large, money-like asset base beyond the Fed's reach weakens monetary control and reduces the dollar's value. Inflationary pressures can build without clear limits. The result is either higher inflation or more aggressive interventions elsewhere, neither of which is attractive.

The Genius Act, passed last year, rests in part on the claim that payment stablecoins are safe because they are backed by high-quality liquid assets, particularly U.S. Treasury securities. This argument should sound familiar. Before 2008, investors believed mortgage-backed securities were safe. They were wrong, not because housing was uniquely risky, but because overconfidence and leverage turned localized stress into systemic collapse.

Crypto presents similar dynamics. Stablecoins depend on confidence. When confidence deteriorates, stablecoin holders cash out, assets are liquidated, and liquidity evaporates. Because many stablecoins are backed by Treasury securities, that stress does not remain confined to crypto markets — it spills directly into the Treasury market itself. We have already seen episodes in which strains in nonbank financial markets disrupted Treasury trading. Expanding a crypto layer tied to government securities can trigger panic runs that increase fragility across the financial system.

None of this requires banning crypto. Policy should allow market innovation and private risk-taking. But Washington should stop pretending crypto is something that it is not. Crypto remains a speculative asset held by a relatively small, politically connected share of the population. Treating it like money, and promoting it as strategically important, risks repeating old mistakes with familiar consequences that would ultimately be borne by the broader public.

# Momentum Investing: What 159 Years Of Data Tell Us

**January 29, 2026 • Larry Swedroe**

Momentum is a term originating from physics. It refers to the tendency of an object moving in one direction through force of motion, to continue moving in that direction. In investing, momentum refers to the tendency of assets that have exhibited strong trends to continue those trends—commonly referred to as winners keep winning, losers keep losing. Guido Baltussen, M. Sipke Dom, Bart Van Vliet and Milan Vidojevic, authors of the November 2025 study "Momentum Factor Investing: Evidence and Evolution," published in *The Journal of Portfolio Management* (Vol 52 Issue 3), provides the most thorough examination to date of this foundational investment strategy, analyzing an unprecedented 159 years of stock market data. Here's what they found and what it means for investors.

**What The Researchers Examined**
The authors set out to answer several critical questions about time-series momentum investing (trend following):

**1. How robust is the momentum effect?** Does it persist across different time periods, markets, and portfolio construction methods?

**2. Has momentum evolved beyond simple price trends?** Can momentum be measured in fundamentals, networks, and other dimensions?

**3. What are the risks?** Specifically, how significant is momentum's exposure to crashes, and can this risk be managed?

To answer these questions, they analyzed U.S. stock data stretching back to 1866, examined 46 international markets, and tested over 4,000 different portfolio construction specifications.

**Key Findings**

**1. Momentum Is Remarkably Persistent**

The research demonstrates that momentum has delivered consistent returns across more than 150 years of investment data. Over the full 1866-2024 period, a basic momentum strategy for U.S. equities (buying past winners and selling past losers) generated average annual returns of approximately 9% for both value-weighted and equally weighted portfolios.

Importantly, the momentum premium showed little evidence of decay after its academic discovery. While many investment anomalies weaken once published, momentum has remained effective even after becoming widely known.

**2. Momentum Works Globally**

The momentum effect appears consistently across international stock markets, with premiums comparable to those in the U.S—there were positive momentum returns in all 31 countries with sufficient data since 1990, with the majority showing statistically significant results.

**3. Momentum Is Multi-Dimensional**

Perhaps the most innovative finding is that momentum extends far beyond simple price trends. The researchers identified and tested several alternative momentum signals:

• **Fundamental momentum**: Trends in earnings surprises and analyst recommendations.

• **Firm-specific momentum**: Returns after controlling for market, size, and value factors.

• **Anchor-based momentum**: Distance from 52-week highs.

• **Network momentum**: Trends among connected companies (by industry or analyst coverage).

• **Factor momentum**: Persistence in factor returns themselves.

Combining these various momentum measures into a multi-dimensional approach improved risk-adjusted returns compared to traditional price momentum alone.

**4. Crash Risk Is Real, But Manageable**

The research confirms that momentum strategies are exposed to significant crash risk, with maximum drawdowns exceeding 88% during market reversals (particularly in 1929 and 2009).

However, the authors found effective ways to mitigate this risk. Scaling momentum exposure based on recent volatility substantially reduced crash risk while actually improving returns. Their risk-managed momentum strategy showed significantly smaller drawdowns while maintaining or enhancing performance.

**5. Design Choices Don't Break Momentum**

To address concerns about "researcher degrees of freedom," the authors tested 4,096 different ways to construct momentum portfolios (such as rebalancing frequency, weighting, and lookback periods). Across all these specifications, momentum remained positive and statistically significant, with Sharpe ratios ranging from 0.38 to 0.94. This robustness suggests the momentum effect is genuine rather than a statistical artifact.

**6. Use Momentum As A Complement**
Momentum adds value when paired with value or quality factors, which tend to perform well in different environments. Together, they create a more balanced portfolio across cycles.

Their findings led the authors to conclude: "Overall, the momentum factor premium is sizable, robust, persistent, and fundamentally multi-dimensional."

**Key Takeaways For Investors**
**1. Momentum Deserves A Place In Your Portfolio**
The evidence supporting momentum is about as strong as you'll find in finance. With consistent performance across 159 years, 46 countries, and thousands of portfolio specifications, momentum appears to be a fundamental feature of markets rather than a temporary anomaly.

**2. Think Beyond Simple Price Momentum**
Investors shouldn't limit themselves to following simple price trends. Incorporating fundamental momentum (earnings surprises, analyst revisions), firm-specific trends, and network effects can enhance returns and diversification.

**3. Manage The Crash Risk**
The biggest challenge with momentum investing is its tendency to crash during sharp market reversals. Investors should:

• Consider scaling position sizes based on recent volatility.

• Combine multiple momentum signals to smooth returns.

• Maintain broader portfolio diversification.

• Be prepared psychologically for occasional severe drawdowns.

**4. Size Matters**
The research shows that momentum effects are generally stronger in smaller stocks. Equal-weighted portfolios consistently outperformed value-weighted ones, suggesting that investors with the flexibility to invest across the market capitalization spectrum may capture larger momentum premiums.

**5. Be Patient And Systematic**
While momentum has been remarkably persistent over the long term, it experiences extended periods of underperformance (including crashes). Success requires maintaining a disciplined, systematic approach rather than timing when to apply the strategy.

**The Bottom Line**
This comprehensive research paper makes a compelling case that momentum is one of the most robust and persistent return drivers in equity markets. The strategy's evolution from simple price trends to sophisticated multi-dimensional approaches offers investors numerous ways to implement momentum while managing its risks.

For investors, the key is recognizing that momentum comes with real risks, particularly during market reversals. However, for those willing to embrace a systematic approach, manage volatility exposure, and weather occasional drawdowns, momentum represents a strategy backed by an extraordinary depth of evidence.

The authors conclude aptly: momentum is "an eternal feature of financial markets." For investors willing to harness it thoughtfully, that's good news.

*Larry Swedroe is the author or co-author of 18 books on investing, including his latest* [Enrich Your Future]*. He is also a consultant to RIAs as an educator on investment strategies.*

# Positions

**ACI** – dropped 6.0% on 3 times normal volume on 1/7 despite a 5.9% positive Earnings Surprise. By 1/29 there were 11 Buy, 6 Hold, 3 Sell recommendations, with 1 analyst having lowered their recommendation to Sell from Hold, and 9 analysts lowering their Target Price, while 6 maintained their TP. On 1/30 we sold for 3 clients @ 16.55.