Low Cross-Sectional Correlation: Stock-pickers paradise

Figure 1: CBOE: S&P 500 Implied Cross-Sectional Correlation

www.trendrating.com
Identifying the Winners and Avoiding the Losers

S&P 500 Return Dispersion

<table>
<thead>
<tr>
<th></th>
<th>YTD</th>
<th>1 year</th>
<th>3 year</th>
<th>5 year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 20</td>
<td>60%</td>
<td>65%</td>
<td>51%</td>
<td>39%</td>
</tr>
<tr>
<td>Btm 20</td>
<td>-15%</td>
<td>-36%</td>
<td>-18%</td>
<td>-14%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>16%</td>
<td>11%</td>
<td>12%</td>
<td>9%</td>
</tr>
</tbody>
</table>

www.trendrating.com
SPIVA Report – Active Underperformance Persists

UNITED STATES
PERCENTAGE OF LARGE-CAP FUNDS THAT UNDERPERFORMED THE S&P 500®
Data as of Dec 31, 2018

FIVE-YEAR
82.14%

THREE-YEAR
78.98%

ONE-YEAR
64.49%

GET STATS FOR OTHER MARKET SEGMENTS ▷

PERSISTENCE
DOES PAST PERFORMANCE REALLY MATTER?
THE PERSISTENCE SCORECARD TRACKS THE STAYING POWER OF TOP ACTIVE PERFORMERS OVER TIME.

www.trendrating.com
"There is substantial evidence that indicates that stocks that perform the best (worst) over a three to 12 month period tend to continue to perform well (poorly) over the subsequent three to 12 months. Momentum trading strategies that exploit this phenomenon have been consistently profitable in the United States and in most developed markets."

- Jegadeesh and Titman
Myth #1: Momentum does not work for a taxable investor

“Momentum, despite having five to six time the annual turnover as value, actually has a similar tax burden as value”  - Israel and Moskowitz (2013b)

<table>
<thead>
<tr>
<th>Value Investing</th>
<th>Momentum Investing</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Lower turnover than momentum</td>
<td>• 5X the annual turnover as value</td>
</tr>
<tr>
<td>• Very high dividend income exposure</td>
<td>• Hold the winners, sell the losers</td>
</tr>
<tr>
<td></td>
<td>• Low dividend exposure</td>
</tr>
</tbody>
</table>
Myth #2: Momentum does not survive trading costs

“The return premia associated with size, value, and momentum appear to be robust, sizeable, and implementable” - Frazzini, Israel, and Moskowitz (2015)

**Transaction Costs**

- Implementation Shortfall – difference b/w model portfolio and actual traded price
- Commissions
- Bid-Ask Spreads
- Market Impact
Myth #3: Momentum is stronger among small caps than large caps

<table>
<thead>
<tr>
<th>Sample</th>
<th>Momentum</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>UMD Small</td>
<td>UMD Big</td>
</tr>
<tr>
<td>1927 - 2013</td>
<td>9.8%</td>
<td>6.8%</td>
</tr>
<tr>
<td>1963 - 2013</td>
<td>11.3%</td>
<td>5.5%</td>
</tr>
<tr>
<td>1991 - 2013</td>
<td>8.1%</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HML Small</td>
<td>HML Big</td>
</tr>
<tr>
<td>1927 - 2013</td>
<td>5.9%</td>
<td>3.5%</td>
</tr>
<tr>
<td>1963 - 2013</td>
<td>6.4%</td>
<td>2.6%</td>
</tr>
<tr>
<td>1991 - 2013</td>
<td>6.5%</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

• UMD = up minus down
• HML = high minus low

“Find little to no evidence that momentum is related to size; it is almost equally as strong among large caps as it is among small caps” - Asness, Frazzini, Israel (2014)
Myth #4: Momentum is too volatile to rely on

Sharpe Ratio = \[
\frac{(Rx - Rf)}{\text{StdDev Rx}}
\]

Where:
- Rx = Expected portfolio return
- Rf = Risk free rate of return
- StdDev Rx = Standard deviation of portfolio return / volatility

www.trendrating.com
• Leading provider of **Performance Management Analytics** based on a unique approach to capture trends, easily understand the data & take action which is measurable.

• Developed after 6 years of breakthrough research by a successful team of experts who **sold their previous Fintech Startup to Bloomberg**.

• **Our model spots Bull Trends (A&B) & Bear Trends (C&D) much faster** than old school momentum models (i.e. Dorsey Wright).

• Investment professionals use Trendrating as a complement to their existing process to **maximise returns & control portfolio risk**.

• Backed by a group of Angel Investors including **ex-Thomson Reuters CEO, Tom Glocer**.

---

[www.trendrating.com](http://www.trendrating.com)
The Trendrating Methodology

Momentum Valuation

Trendrating offers a well validated rating methodology to measure momentum (A, B, C, D).

- **A**: Strong Bull Trend
- **B**: Beginning of Bull Trend
- **C**: Inception of Bear Trend
- **D**: Strong Bear Trend

Smart Momentum Score

Trendrating’s Smart Momentum Score (SMS) is a continuous rating scale between -3 and 3, measuring the strength of the trend since that trend began. The metric allows you to differentiate between securities of the same ratings, whether that is an A, B, C or D rated security.