Momentum & Factor Models

PRO PRACTICE WORKSHEET

Work through these by hand or with a spreadsheet. There's no wrong answer, the goal is just practice.

Section 1 - Rank a Hypothetical Universe

List 6 hypothetical stocks with made-up 6-month returns. Rank them by momentum and mark the top 2 as 'Hold'.

Section 2 - Choose a Lookback Window

Would you rank by 3-month, 6-month, or 12-month trailing return? What's the trade-off between a shorter and a longer window?

Section 3 - Plan a Rebalancing Rule

How often would you re-rank and rebalance a momentum portfolio? What turnover and trading costs might that imply?

Section 4 - Think About Crowding

If many funds all chase the same momentum definition, what could happen during a sudden market reversal?

Section 5 - Compare to Mean Reversion

In your own words, explain how momentum and mean reversion can both be true at once, over different timeframes.