



2018 Q2: Factor Performance in Review

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The dramatic increase in stock market volatility witnessed in the first quarter persisted in the second quarter, albeit at a slightly lower clip. The volatility for Q2 was 12.5%. While down from 19.9% in Q1, this is still nearly double 2017’s volatility of 6.7%. Results from the VIX roughly conform with these realized volatility measures. The VIX index rose from 11% on Jan 1 to 20% on March 31 before receding somewhat, but still stood at 16.1% as of the end of Q2.

It seems that the market has settled into a discernibly higher volatility environment than in the several years preceding 2018. Our volatility regime signal, on which our Dynamic Alpha strategy’s switching decision is based, switched to “Turbulent” on March 5 after a long “Calm” cycle ([read here for more information on Dynamic Alpha](#)), and has remained in that state since. Macro-economic drivers such as inflation, interest rate changes, trade policy, and the November mid-term election all remain very prominent topics on investors’ minds.

In light of this heightened volatility regime, we show performance of our factor portfolios in terms of returns *and* volatility reduction, for the quarter and the year-to-date. In Q2, the dispersion in performance across factors was fairly narrow compared to Q1. Factor returns were all slightly positive for the quarter, in line with the market.

OAM RETURNS							
	Value	Momentum	Quality	Low Vol	DA	PH	SP500
Q2	2.08%	2.24%	3.42%	2.13%	2.64%	2.47%	3.43%
Q1	-1.54%	1.57%	0.48%	0.03%	0.89%	0.13%	-0.76%
YTD	0.51%	3.84%	3.92%	2.16%	3.56%	2.61%	2.65%
OAM VOLATILITY							
	Value	Momentum	Quality	Low Vol	DA	PH	SP500
Q2	10.8%	12.2%	12.5%	10.2%	10.7%	11.1%	12.5%
Q1	17.1%	18.0%	17.5%	15.5%	16.5%	16.8%	19.9%
YTD	14.3%	15.3%	15.2%	13.1%	13.8%	14.2%	16.4%

Through our licensing relationship with S&P Dow Jones Indices, we can also passively implement S&P (factor) indices. Here’s a breakdown of how the S&P US factor indices have performed. S&P Momentum has been a notably strong performer throughout the year.

S&P Factor Index RETURNS						
	S&P 500® Value	S&P 500® Momentum	S&P 500® Quality	S&P 500® Low Volatility	S&P 500®	
Q2	0.53%	5.29%	1.01%	1.59%	3.43%	
Q1	-2.66%	3.39%	-1.47%	-0.86%	-0.76%	
YTD	-2.15%	8.86%	-0.48%	0.71%	2.65%	
S&P Factor Index VOLATILITY						
	S&P 500® Value	S&P 500® Momentum	S&P 500® Quality	S&P 500® Low Volatility	S&P 500®	
Q2	12.9%	15.7%	12.9%	9.3%	12.5%	
Q1	20.7%	23.8%	19.5%	15.8%	19.9%	
YTD	17.1%	20.0%	16.4%	12.8%	16.4%	

You can access these strategies by “Direct Indexing” with us. Our strategies (Premia Harvest, Dynamic Alpha, as well as other custom strategies that we have built) hold hundreds of positions, and so have traditionally been focused on large institutional clients. This has been due to limitations in the back-end trading/custodial infrastructure, which are now starting to open up as providers are incorporating new innovations (allowing for fractional share allocations, asset-based instead of transaction-based pricing, etc). As a result, we are now able to offer “Direct Indexing” solutions to account sizes as small as \$100,000. There are a variety of benefits to Direct Indexing, which my colleague Teun Lucas highlighted in a recent blog ([see our recent blog post on Direct Indexing](#)).

We recognize that each factor index/portfolio family maintains unique portfolio construction rules (regarding stock selection, weighting, rebalancing, etc.) that may have different appeal based on your investing goals/requirements. It is for this reason that we offer Direct Indexing asset management services on any individual or blend of factors shown above, whether based on OAM models or S&P indices. For further information, please contact Teun (teun@optimalam.com or 650-472-1187 x.109).

OAM MODEL PERFORMANCE: DISCLAIMER

While the individual OAM factor portfolios are 'live' within a larger strategy, factor performance statistics shown are based on model back-test. No representation is being made that OAM will or is likely to achieve comparable performance results in the future to those shown above. In fact, there are frequently sharp differences between a hypothetical performance record and the actual performance record subsequently achieved by live trading.

The investment process described in this document is subject to change at OAM's discretion, based on OAM's work with clients to create a suitable portfolio.

Hypothetical, back-tested results were achieved by means of the retroactive application of a simulation model and, as such, the corresponding results have inherent limitations, including:

1. the results do not reflect the results of actual trading using client assets,
2. the results do not reflect the investment of dividends in the same way that an investor might, nor the deduction of transaction, custodial or advisory fees, the deduction of which would have the effect of decreasing model performance results, and
3. back-tested performance may not reflect the impact that any material market or economic factors might have had on the adviser's management of actual client assets.

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