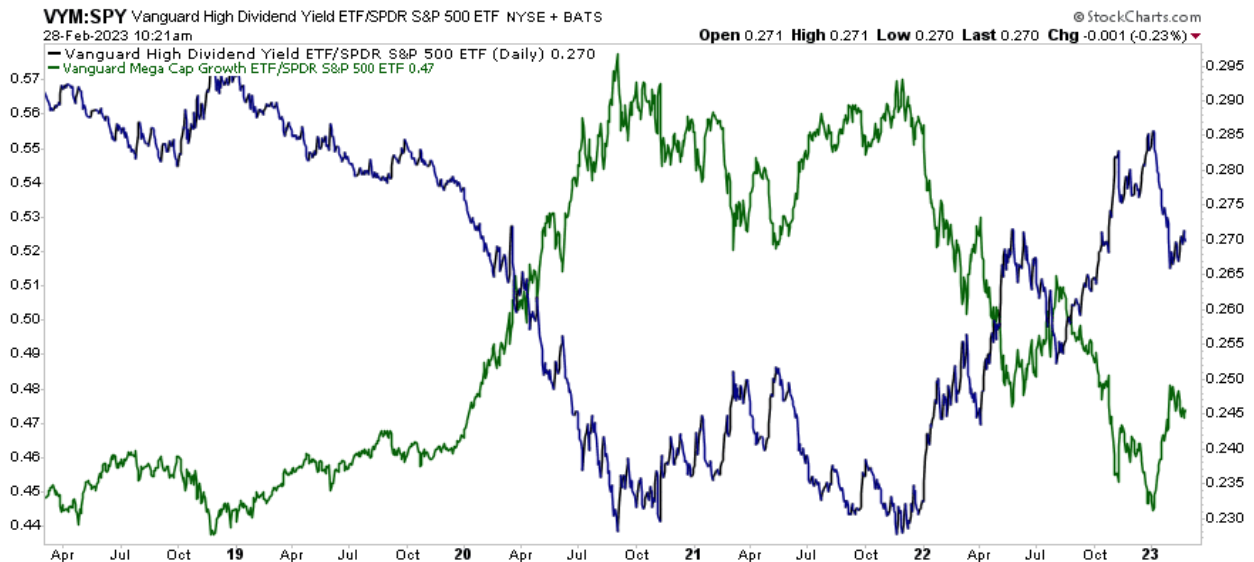


Five for Friday- Factors in Favor

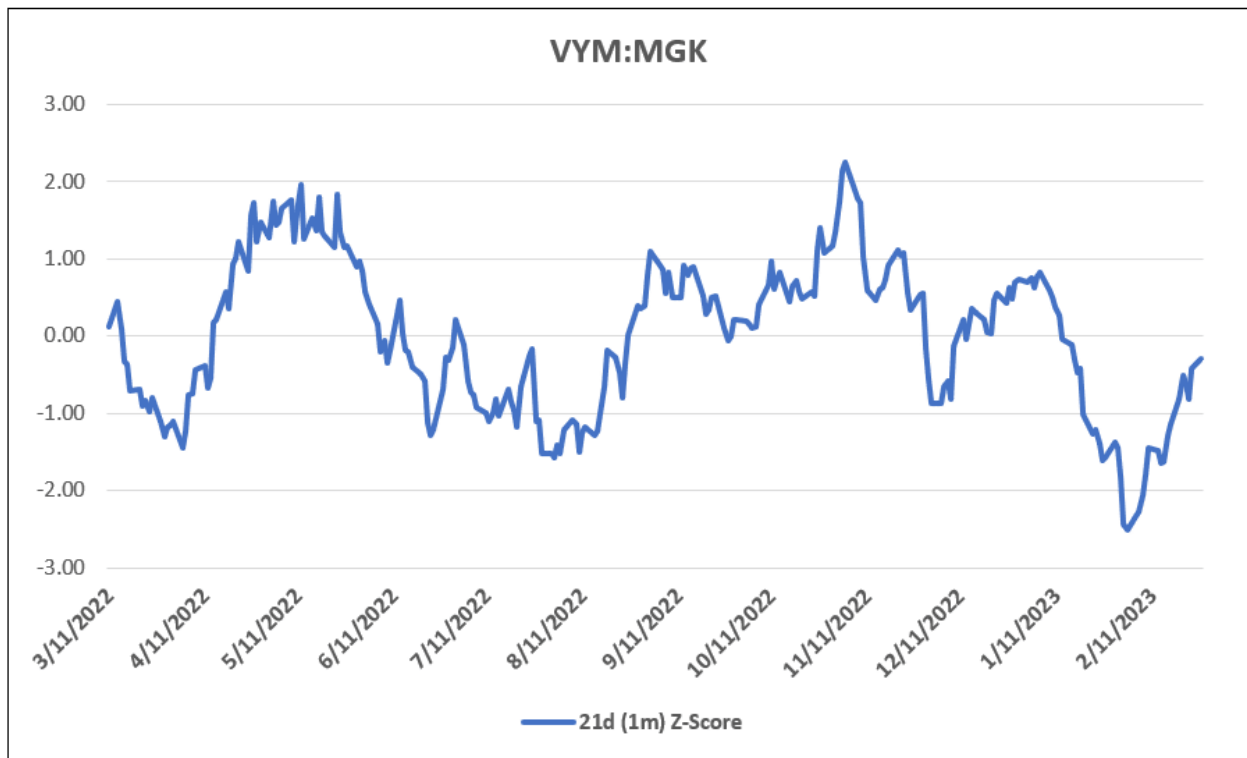
Typically, we screen for individual equities based on technical analysis or fundamental metrics. This week we switch things up by introducing a new aspect of our factor analysis process. We previously highlighted our factor performance monitoring tool in [Factors for Success](#).

Our analysis today builds on that concept by first comparing excess returns of various factors to find pairs with strong negative correlations.

Let's use our High Dividend Yield (VYM) and Mega-Cap Growth (MGK) factors as examples. Our analysis tells us there is a 252-day correlation in excess daily returns versus the S&P 500 of -94.7%. This relationship is illustrated by comparing the price ratios of the two factors to SPY over time, as shown below. The ratios are almost mirror images of each other- exemplifying the negative correlation in excess returns.



Using three different period lengths, we then look at summary statistics of the relationship over time and standardize the data with Z-Scores. The result is a model, shown below that signals which factor pairs are likely to be in favor given how extended the relationships are from their mean.



Continuing with our earlier example, one might strategize to buy VYM when the Z-Score falls below -1.5 standard deviations. Conversely, sell High Dividend Yield and buy Mega-Cap Growth when the Z-Score rises above 1.5 standard deviations.

So how did this strategy perform? Beginning with our first signal in April 2022, the VYM:MGK factor rotation strategy outperformed a buy-and-hold strategy in SPY by roughly 10%. The value of \$1,000 invested in each strategy is shown in the following chart.



Screening Criteria

We display five-factor pairs with 252d correlations of less than -0.60 below. We use Z-Score percentiles in the data table to indicate whether a Z-Score is extreme for a particular pair, given that they can trade in unique ranges.

Factor Pairs					
Tickers	Factor Pair Name	252d Correlation	Z-Score Percentile		
			Period 1 - 21d (1mo)	Period 2 - 63d (3mo)	Period 3 - 126d (6mo)
RSP:IVW	Equal Weight S&P 500: S&P 500 Growth	-62.3%	33.0%	50.9%	83.2%
SPHB:VYM	High Beta: High Dividend Yield	-70.1%	54.5%	85.6%	98.0%
SPHB:SPLV	High Beta: Low Beta	-79.5%	47.8%	87.6%	98.0%
MGK:VYM	Mega-Cap Growth: High Dividend Yield	-94.8%	60.5%	78.0%	59.3%
IVE:IVW	S&P 500 Value: S&P 500 Growth	-95.0%	33.4%	48.6%	83.6%

Five for Friday

Five for Friday uses stock screens to produce five stocks that we expect will outperform if a particular investment theme plays out in the future. Investment themes may be relevant to the current or expected market, industry and/or economic trends. Investment themes may not always represent our current forecast.

Disclosure

This report is not a recommendation to buy or sell the named securities. We intend to elicit ideas about stocks meeting specific criteria and investment themes. Please read our [disclosures](#) carefully and do your own research before investing.