
Undergraduate Student Investment Management Fund

2018 Fall Presentation
Friday, November 30



Team Overview

Fund Manager



Jerry Zhang

Fund Analysts



Michael Calabro



Nicholas DeSantangelo



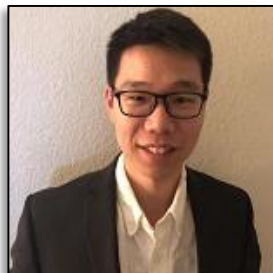
Yanni Dong



Abbas Haider



Lukas Stogsdill



Li Yang



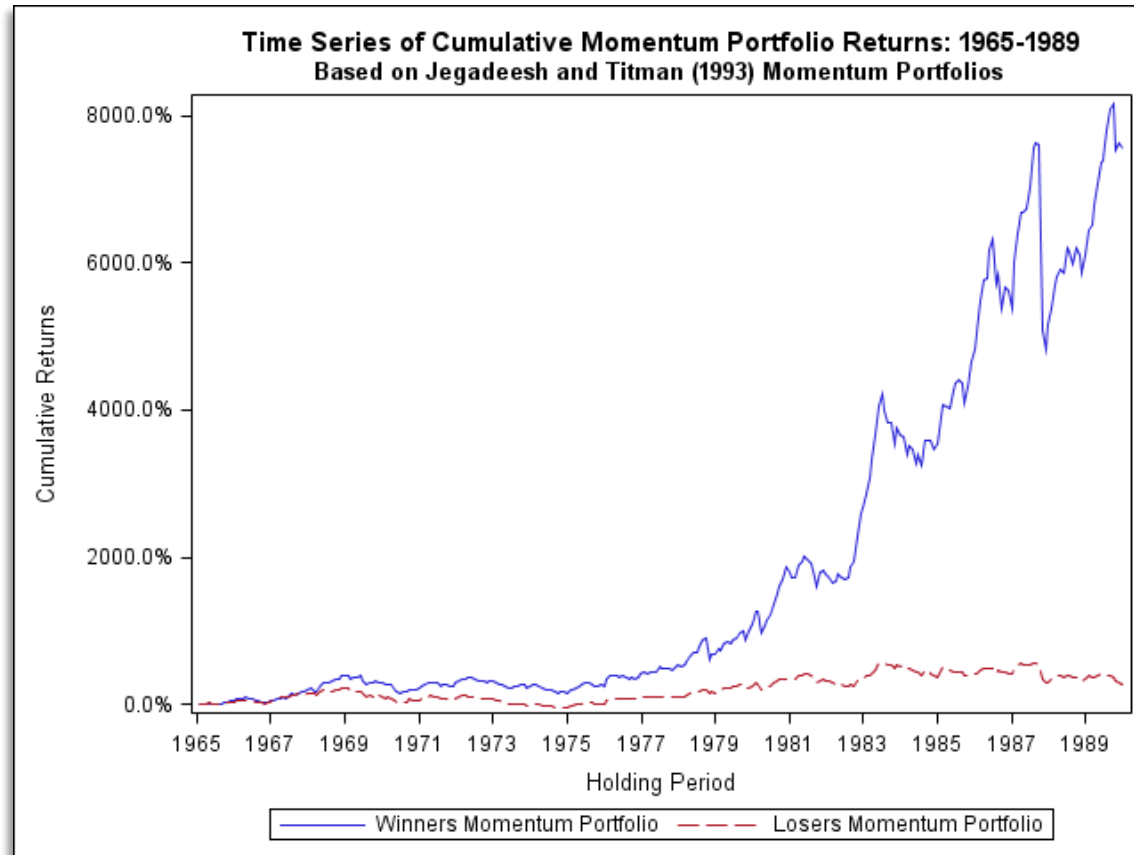
Isaac Zolot

Investment Thesis



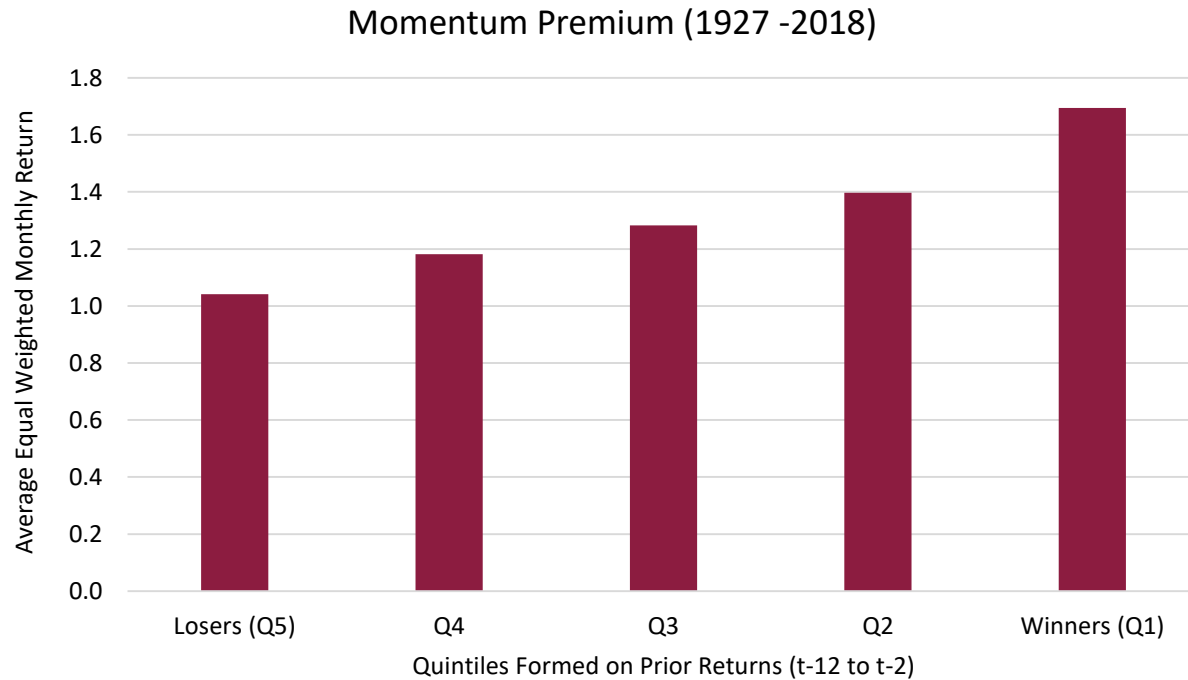
Introduction to Momentum

Jegadeesh & Titman (1993) find that trading strategies that buy past winners (stocks that perform well) and sell past losers (stock that perform poorly) experience abnormal returns.



Momentum Returns

Momentum theory posits that past winners will continue to win while past losers will continue to lose.



Source: Kenneth R. French Data Library

Explanations of Momentum Phenomenon



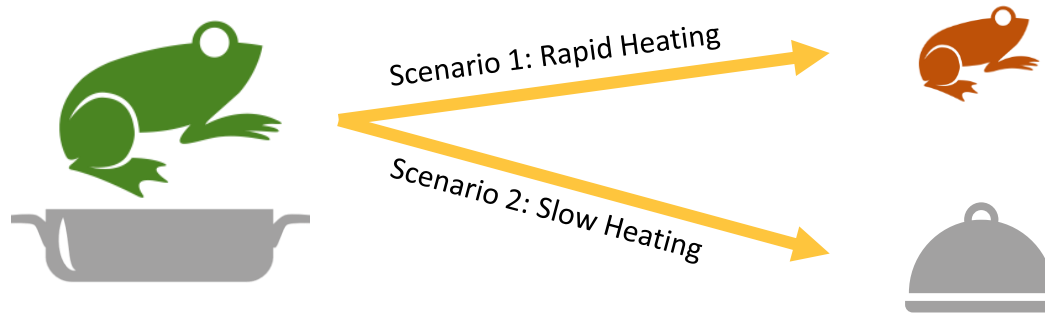
Bearing Undiversifiable Risk: this theory posits that momentum investors experience outsized average returns as compensation for bearing undiversifiable risk.



Underreaction: this theory posits that information slowly leaks into prices due to slow reactions to news.

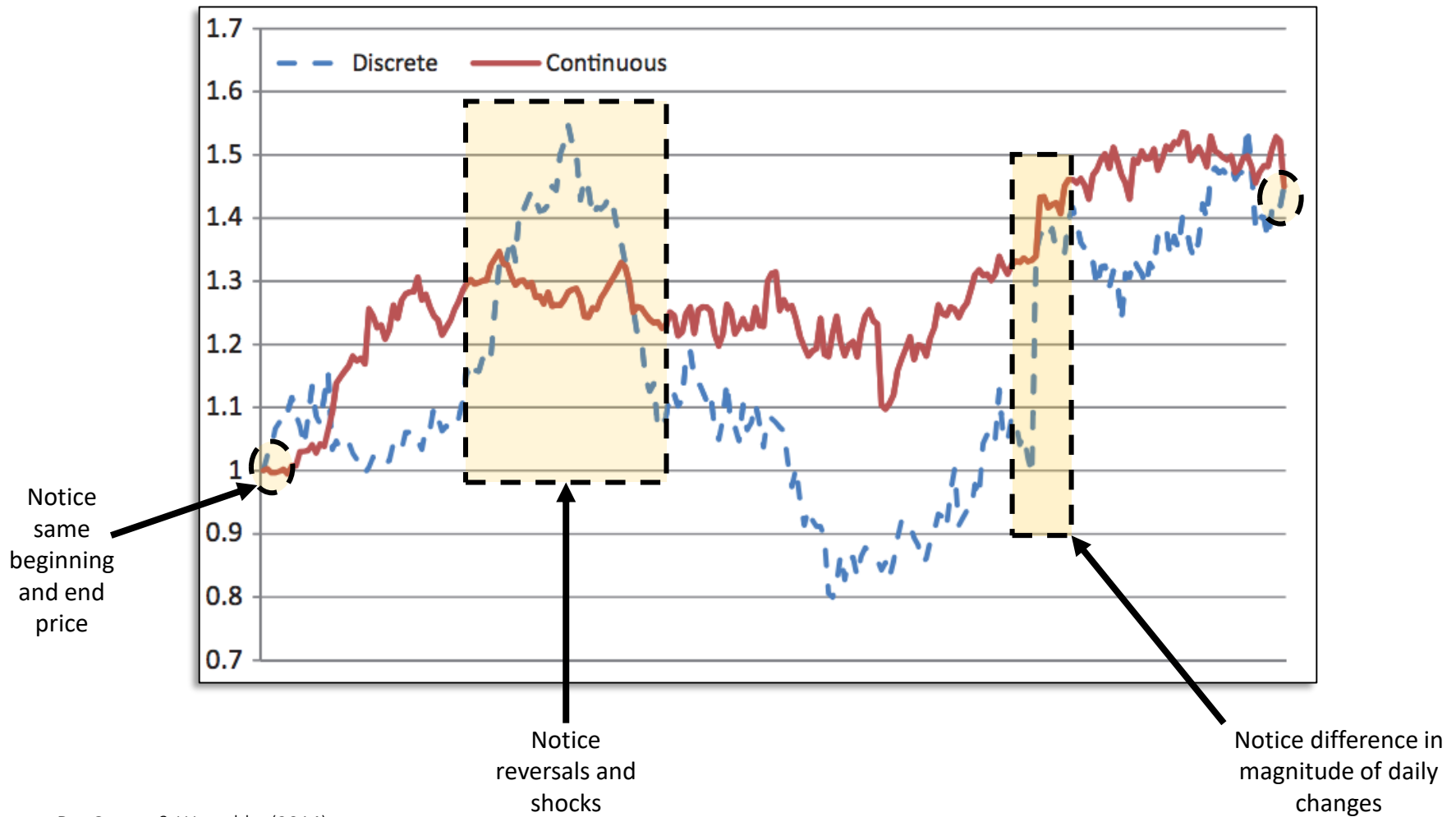
Frog in the Pan Theory

Our fund's investment thesis is derived from Da, Gurun, & Warachka's (2014) analysis on momentum investing conditioned on information discreteness.



Implication: Investors are less attentive to information arriving continuously in small amounts than to information that arrives in large amounts at discrete time points.

Continuous vs. Discrete Returns



Source: Da, Gurun, & Warachka (2014)

Calculating Information Discreteness

Our fund's investment thesis is derived from Da, Gurun, & Warachka's (2014) analysis on momentum investing conditioned on information discreteness.

To calculate information discreteness:

$$ID = \text{sign}(\text{Annual Return}) \times [\%neg - \%pos]$$

Information Discreteness

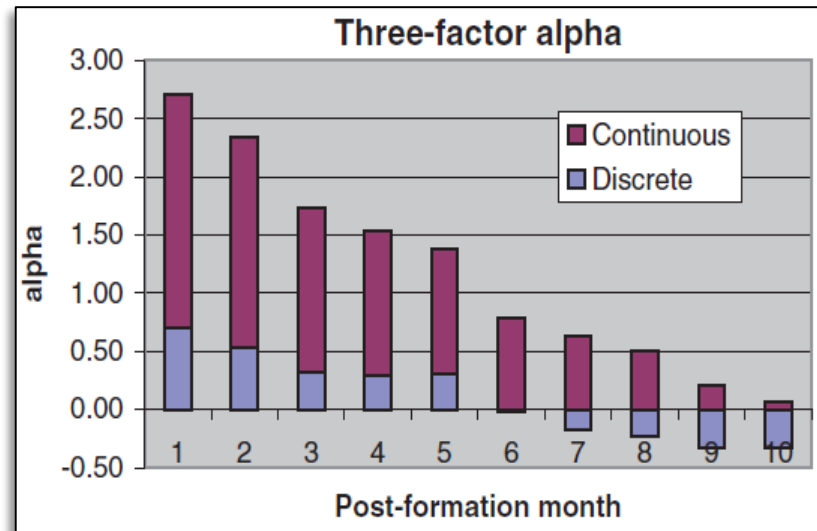
Sign of the cumulative return over t-12 to t-2

Percentage of days during formation period with negative returns minus positive returns

Source: Da, Gurun, & Warachka (2014)

Continuous Momentum Alpha

Momentum profit conditioned on continuous information persists for ten months; discrete profits ends after five months. Continuous information also lacks a long-term return reversal.

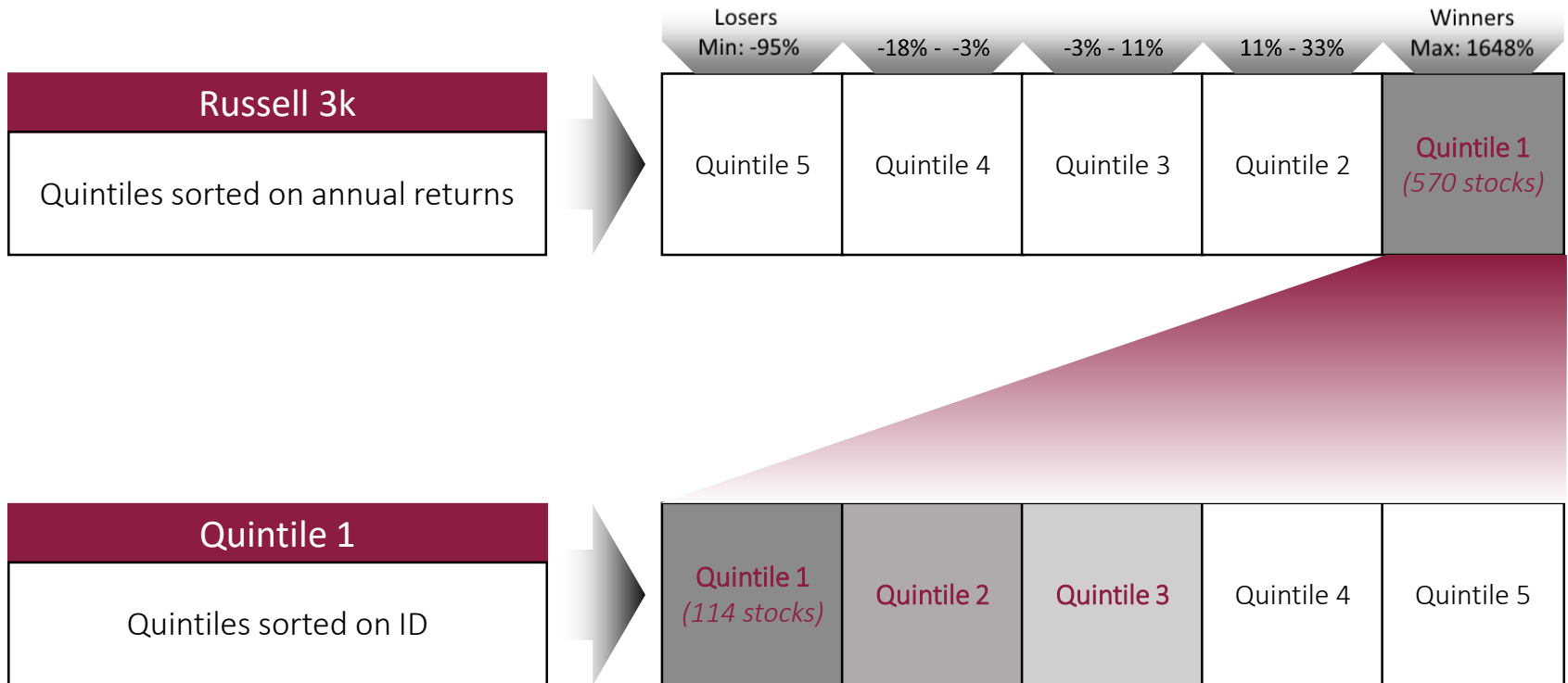


Source: Da, Gurun, & Warachka (2014)

Portfolio Implementation

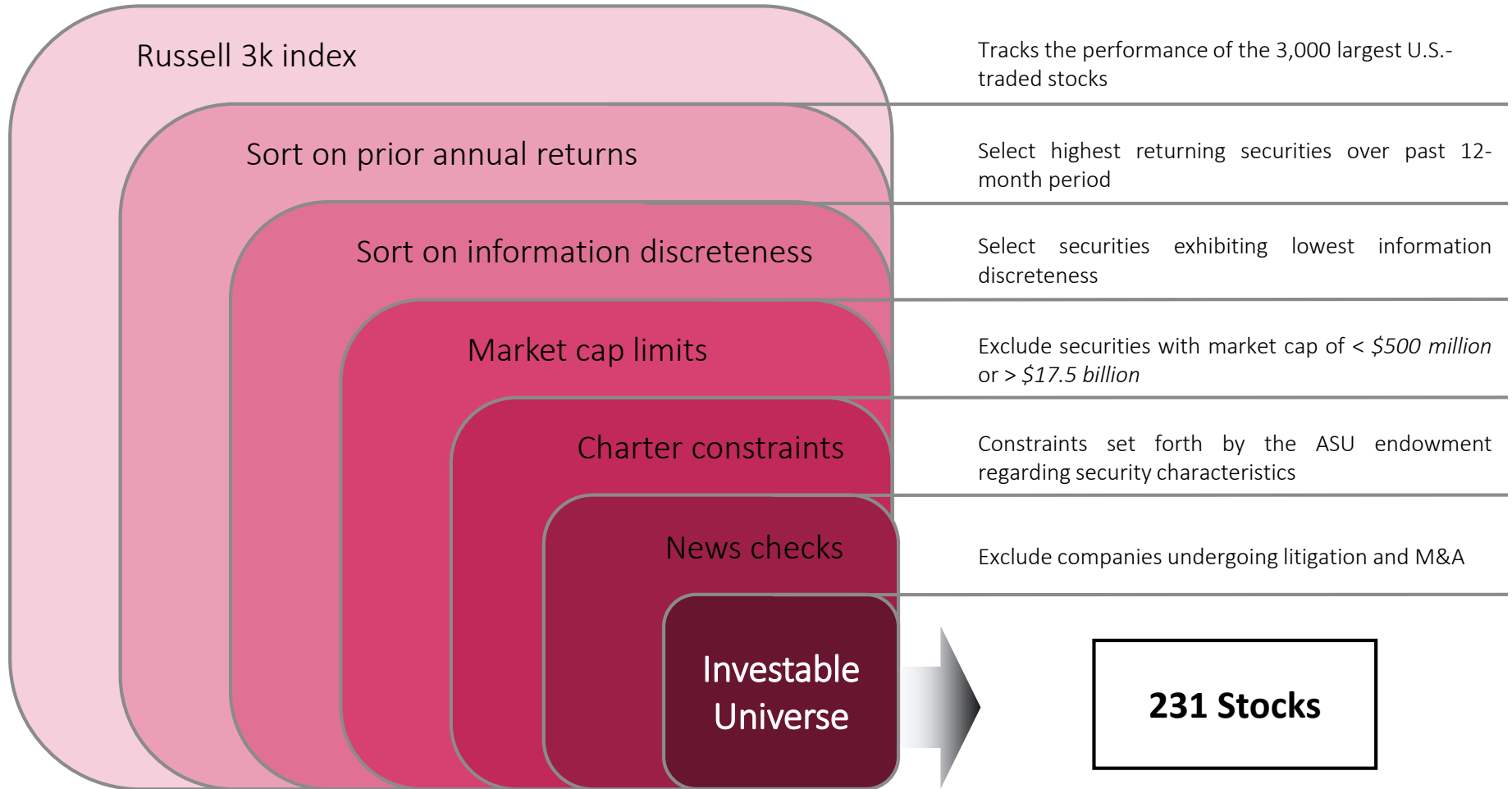


Discussion on Investment Quintiles



$$ID = \text{sign}(\text{Annual Return}) \times [\%neg - \%pos]$$

Security Selection



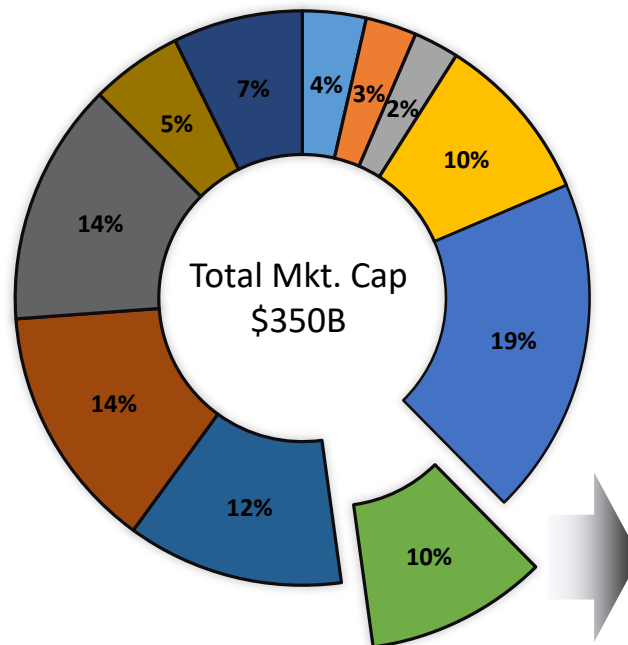
Portfolio Construction Process

Cumulative market cap with respect to target portfolio: Consumer Discretionary.

Target Portfolio Characteristics

of securities: 70 Average Market Cap: \$5B

Example: Consumer Discretionary



X # of Securities

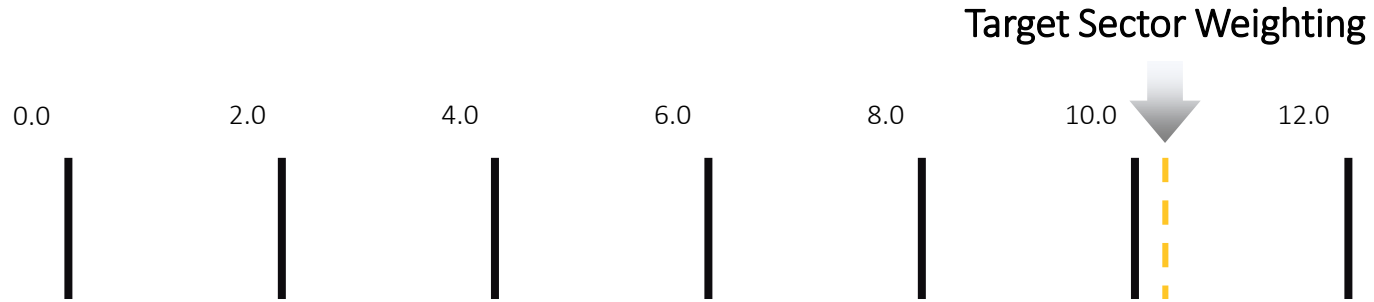
Single Security Market Cap

Target Portfolio Market Cap

Security contribution to portfolio sector weighting

Portfolio Construction Process

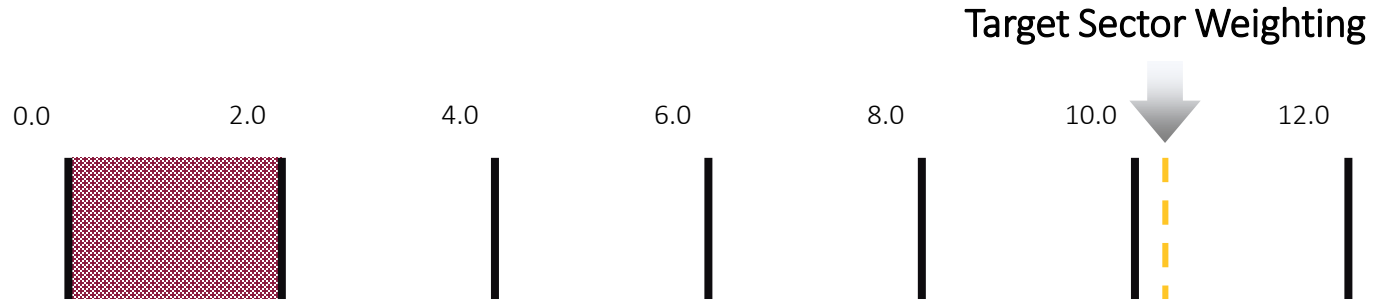
Cumulative market cap with respect to target portfolio: Consumer Discretionary.



Security	Market Cap (\$B)	Market Cap Weighting	ID Rank
A	6.84	2.00%	1
B	5.59	1.60%	2
C	9.64	2.75%	3
D	13.26	3.79%	4

Portfolio Construction Process

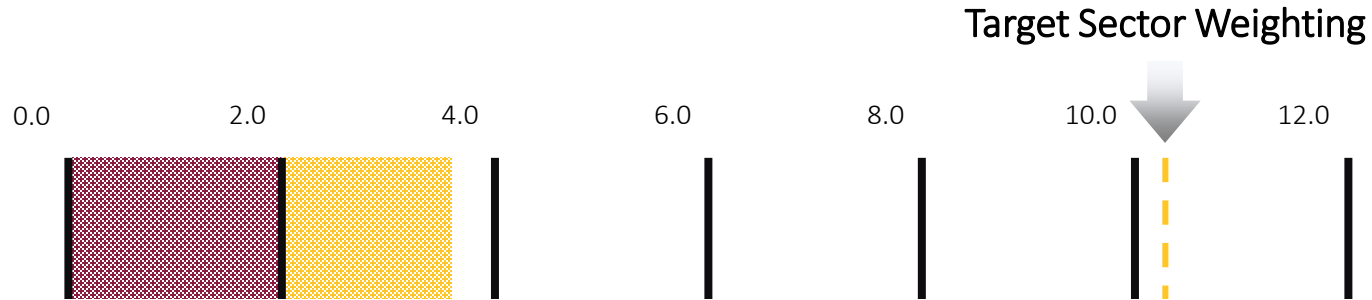
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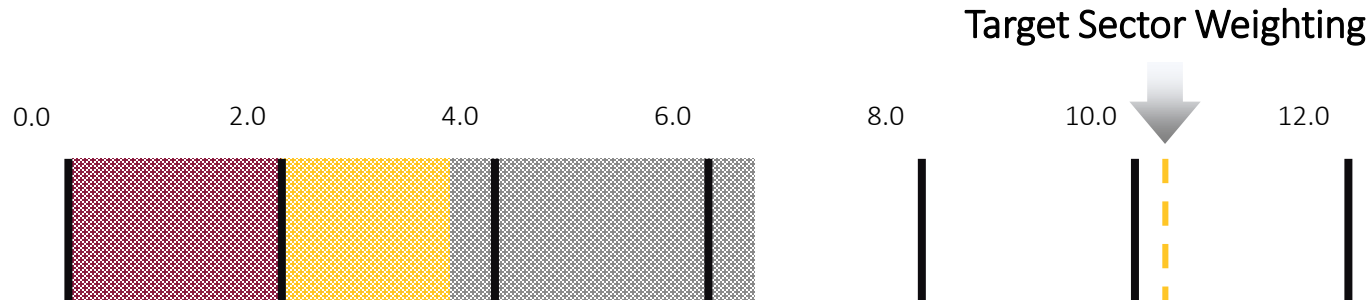
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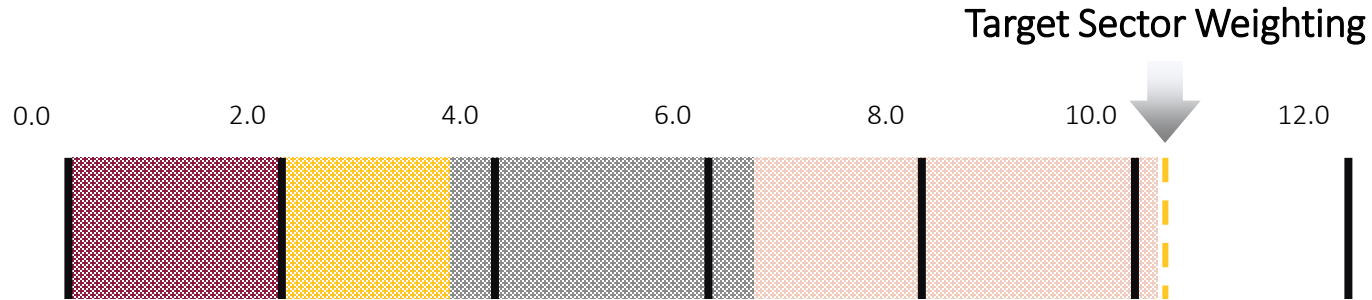
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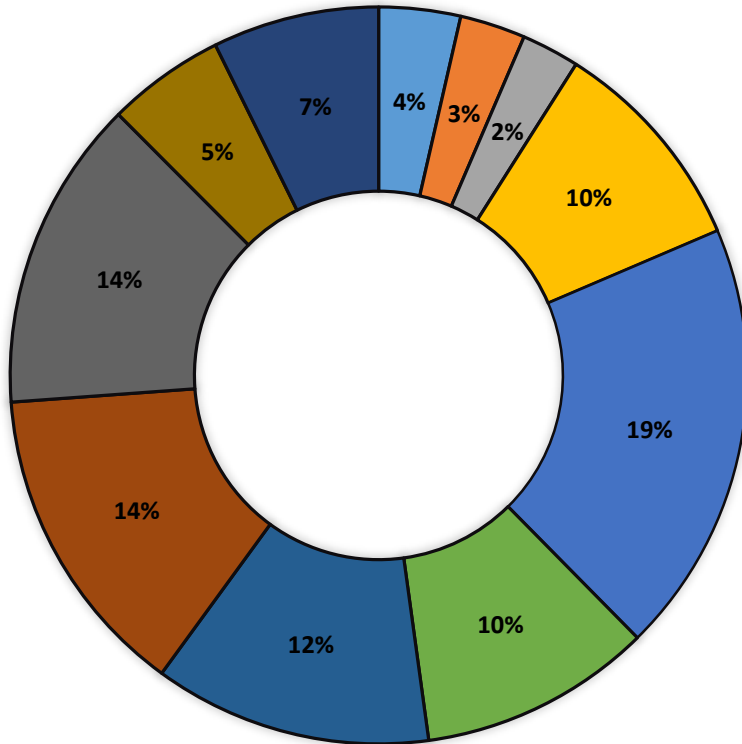
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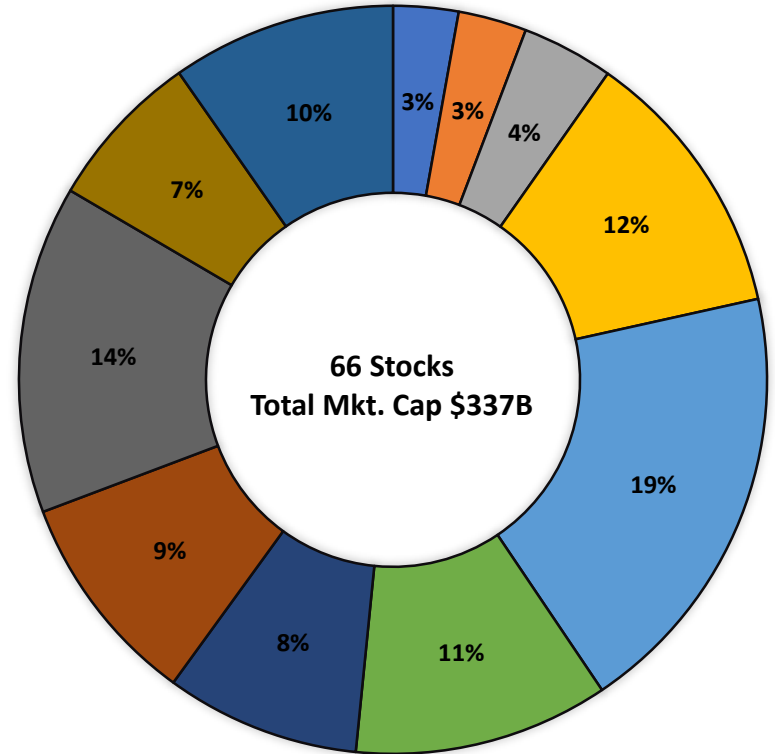
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Asset Allocation

Russell 3k Weights



Portfolio Weights

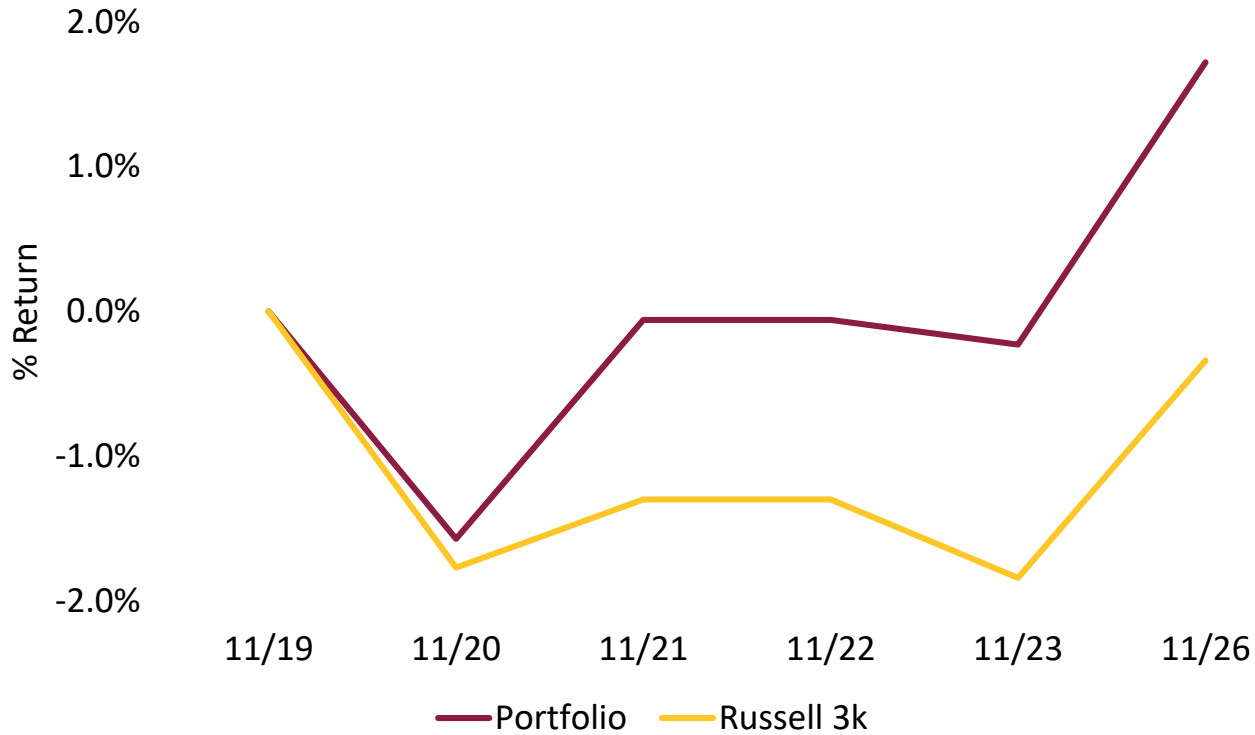


- | | | |
|------------------------|------------------------|------------------------|
| Real Estate | Utilities | Materials |
| Industrials | Information Technology | Consumer Discretionary |
| Communication Services | Financials | Health Care |
| Energy | Consumer Staples | |

- | | | |
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Returns

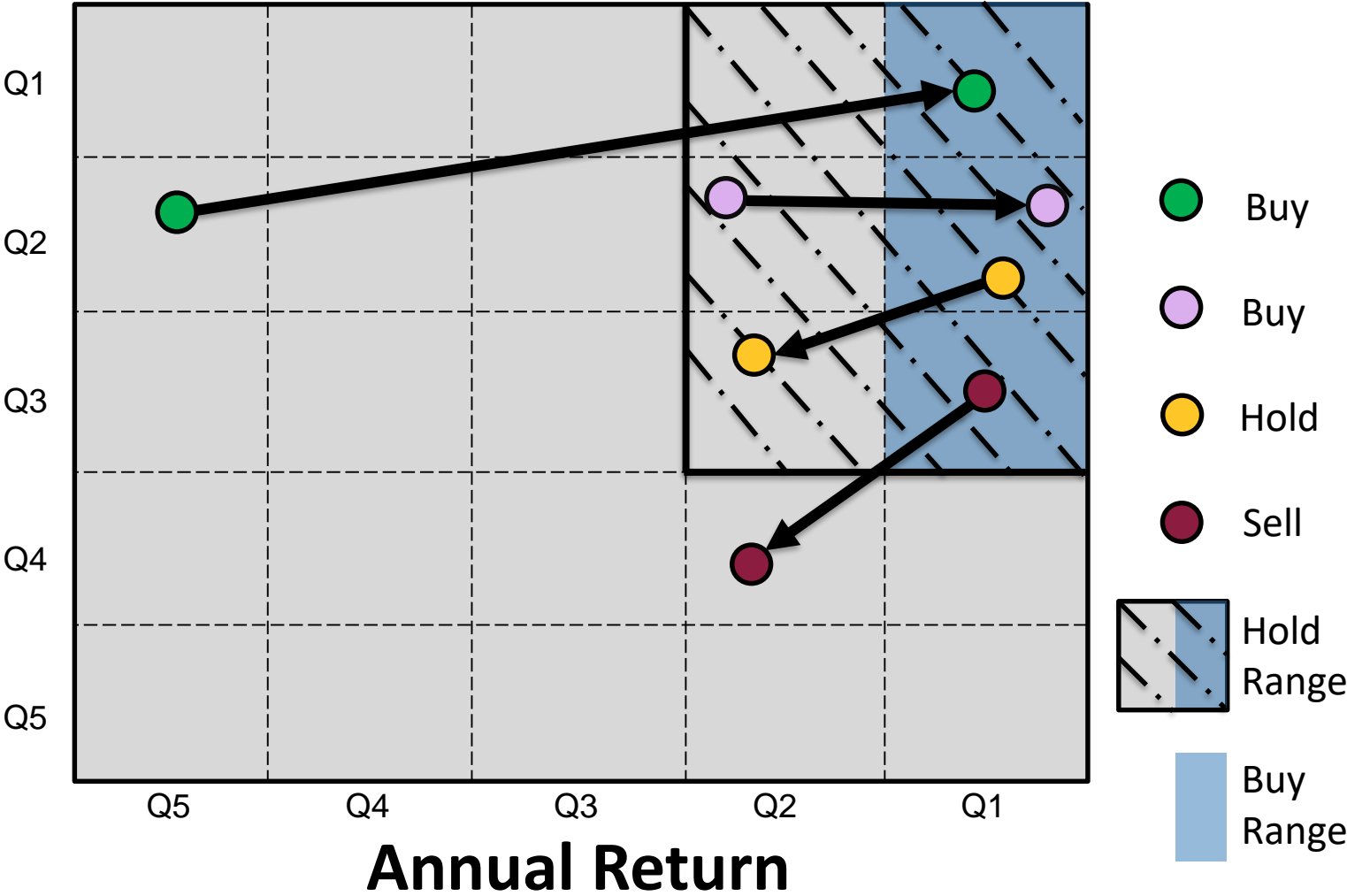


Total Return

Our Return: 1.72%
R3K Return: -0.34%

Rebalancing

ID



Thank you. Questions?

