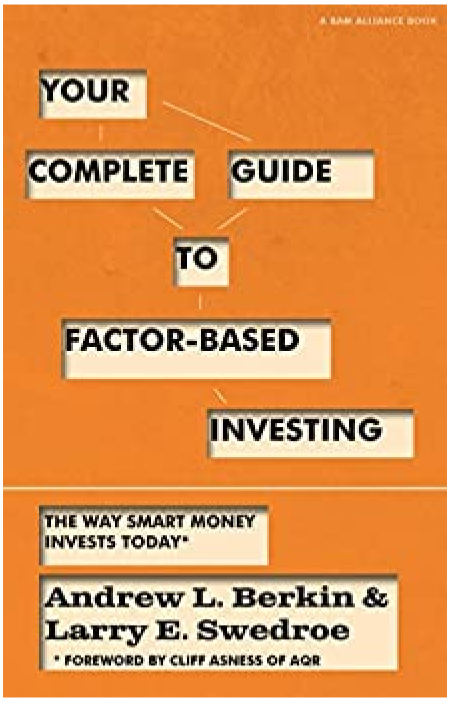
Your Complete Guide To Factor-Based Investing: The Way Smart Money Invests Today



Synopsis

There are hundreds of exhibits in the investment â œfactor zoo.â • Which ones are actually worth your time, and your money?Larry Swedroe and Andrew Berkin, co-authors of The Incredible Shrinking Alpha, bring you a thorough yet still jargon-free and accessible guide to applying one of todayâ ™s most valuable quantitative, evidence-based approaches to outperforming the market: factor investing. Designed for savvy investors and professional advisors alike, Your Complete Guide to Factor-Based Investing: The Way Smart Money Invests Today takes you on a journey through the land of academic research and an extensive review of its 50-year quest to uncover the secret of successful investing.Along the way, Swedroe and Berkin cite and distill more than 100 academic papers on finance and introduce five unique criteria that a factor (at its most basic, a characteristic or set of characteristics common among a broad set of securities) must meet to be considered worthy of your investment. In addition to providing explanatory power to portfolio returns and delivering a premium, Swedroe and Berkin argue a factor should be persistent, pervasive, robust, investable and intuitive.By the end, youâ ™ll have learned that, within the entire â œfactor zoo,â • only certain exhibits are worth visiting and only a handful of factors are required to invest in the same manner that made Warren Buffett a legend.Your Complete Guide to Factor-Based Investing: The Way Smart Money Invests Today offers an in-depth look at the evidence practitioners use to build portfolios and how you as an investor can benefit from that knowledge, rendering it an essential resource for making the informed and prudent investment decisions necessary to help secure your financial future.

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Customer Reviews

The authors provide a very good summary of the research on 6 factors: size, value, momentum, profitability/quality, term, and carry. For those who don’t follow the latest academic research this is great. Much of the research is pretty recent -- you’ll notice that a lot of the quoted studies were only published in 2015 or 2016 -- meaning there really isn’t any other book out there that covers factor research like this.For each factor they look at the research on five criteria: persistence across time, pervasive across countries or asset classes, robust to slight variations in definition, investable in the real world and not just on paper, intuitive explanations for why the premium exists and why it should continue to exist.This part of the book is very strong and highly recommended.I wish they had explored the "factor zoo" in a bit more detail. They have five criteria and it would be interesting to see some factors that DON’T live up to those criteria. They do this a little bit in the appendices, where they briefly look at low-volatility, default, and time series momentum factors. But I wish they had expanded it to include a few more.But that’s really a quibble. I think the big failing of the book is that, after 8 chapters of being bombarded by research, you’ll probably feeling: OKAY, I’M READY TO INVEST!!!Unfortunately, the final chapter, "Implementing a diversified factor portfolio" is the weakest chapter.They offer three example portfolios where the factors are "equal-weighted". That is, instead of owning 100% total stock market, you instead own 25% total stock market (for beta), 25% size, 25% value, and 25% momentum.That’s okay as an example of how factor diversification helps. But that doesn’t strike me as realistic investment advice for most people. Why equal weighting? Why not 40% size and 10% momentum? Are we talking about domestic US factors only? Or global factors only? How exactly does international and emerging markets fit it that portfolio? And what about traditional diversifiers like REITs, CCFs, managed futures, or whatever? Do you have a "factor portfolio", a "non-factor portfolio", and a "bond portfolio"? What if you invest in a fund that combines factors (say, small and momentum)? How does a real world investor even check that their portfolio is invested in "25% momentum"? What if I invest in a small cap value fund that has some negative momentum? And I want to balance that against my international quality momentum fund? How much momentum does my overall portfolio have at the end of the day?I don’t think anyone reading this books will come away with any real idea how to build a factor portfolio other than: "I think I should TILT toward factors some...but I’m not sure how much. I read in a book 20% was a good number for a tilt so I’ll do that but I don’t know how they picked that number."

This is an outstanding addition to anyone’s investing library. It is a must read for any individual investor or financial advisor interested in understanding modern investing. Over the last two decades there has been a huge shift in popular investing from active management to passive index funds. Modern investing has now moved beyond a single market factor world though. Market beta explains perhaps 60-70% of a portfolio’s returns. Fama and French introduced the size and value factors, and the three factor model explained greater than 90% of a portfolio’s returns. Now there are about five or six factors that explain about 95% of a portfolio’s performance. These few factors stand out among the hundreds of factors that have been described in the literature.Larry and Andrew explain these factors and the data supporting them. They describe five criteria that a potential factor must meet to be real and meaningful. The equity factors described are the market factor, size, value, momentum, profitability/quality. Although learning these factors is important and potentially profitable to the investor, there is an even bigger and more important lesson in the book. The authors teach us how to evaluate any new potential factor or potential portfolio addition. They describe the five criteria that we can apply to these five equity factors and any potential factor we may come across in the future: persistent over time, pervasive across markets, robust to different definitions, intuitive to common sense, and investable at reasonable access and expense to us common folks. Understanding these criteria are vitally important to the investor. They emphasize that an investment plan is worthless if an investor can’t stick to his plan. All factors will underperform for long periods. Understanding and believing the criteria will give the investor the fortitude to stick to his well thought out plan. Moreover, by looking at correlations, they build a powerful case for diversifying across factors.The book is very readable, but it is meant for the highly interested do it yourself investor or advisor, who already understands concepts of efficient markets, asset allocation, diversification. A serious investor will read this book and place it on his investment shelf. He will return to it periodically over the years to look at a few of the tables and some of the data as the various factors perform and underperform over the years.An important question arises. When these factors become well known, especially the behavioral (as opposed to risk based) factors, are they still worthy of investment? The authors address this in one of the last chapters. I strongly recommend this book for anyone interested in a serious look at modern investing in language someone without a finance degree can understand.

I’ve been a CFA since 1989 and I learned a lot from this book.It’s well organized, beginning with an introduction that defines the topic, its scope, and its importance. The foreword by Cliff Asness is a great read by itself: Asness compliments the book’s simple genius, and he offers insightful context in his typically witty fashion.Each chapter has clear definitions and a systematic review of factors using the same quantitative measures (factor premia, Sharp ratios, probability of success) and qualitative criteria (is the factor persistent, pervasive, investable, and intuitive).The book covers a lot of ground, and it does a heroic job of summarizing a vast amount of academic research briefly, and in plain English. Each chapter is dense with information and nuance, so you won’t find yourself skipping over the fluff.Finally, I was particularly impressed by how up-to-date the book is: The book was published in 2016 yet on page 294 it refers to a 2016 study by Clarke, de Silva, and Thorley: "Factor Portfolios and Efficient Factor Investing." Clarke et. al. discuss how to combine multiple factors in a single portfolio, and their study appeared in the Financial Analyst Journal in October 2016. Berkin and Swedroe must have read the advance copy of this research on SSRN in 2015. (Or they have a time machine in the basement.)Well done!Rob______________Robert J. Martorana, CFARight Blend Investing, LLC

Generating Leads, Funding, Proven Methods for Investing in Real Estate Angel Investing: The Gust Guide to Making Money and Having Fun Investing in Startups The Ultimate Guide to Peer to Peer Investing 2017: How to make money investing in P2P loans Cryptocurrency: How to Make a Lot of Money Investing and Trading in Cryptocurrency: Unlocking the Lucrative World of Cryptocurrency (Cryptocurrency Investing and Trading Book 1) Smart Money Smart Kids: Raising the Next Generation to Win with Money Asset Management: A Systematic Approach to Factor Investing (Financial Management Association Survey and Synthesis) Bitcoin Trading and Investing: A Complete Beginners Guide to Buying, Selling, Investing and Trading Bitcoins (bitcoin, bitcoins, litecoin, litecoins, crypto-currency) (Volume 2) Fiverr-Best Gigs to Make Money on Fiverr With Proven Money Making Gigs And Ways for Making Money That Work (Fiverr.com Books, Make Money With Fiverr Gigs, Ideas, Tips, SEO Book 1) A Smart Girl's Guide: Getting It Together: How to Organize Your Space, Your Stuff, Your Time--and Your Life (Smart Girl's Guide To...) Smart Women Love Money: 5 Simple, Life-Changing Rules of Investing