

Active portfolio strategies based on industry level price and earnings momentum

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In this project you will first construct two managed equity portfolios: one that is based on price momentum and the second that is based on earnings momentum, within each of twelve industries in Professor Kenneth French's website. You will then evaluate the performance of the two portfolios using a variety of portfolio performance measures that are commonly used in practice. You will also characterize the drivers of the profitability of these two strategies and examine any business cycle components that may exist. You will take explicit and implicit transactions costs into account in your analysis.

You will have the following data available to you: (a) Excel file of monthly returns for each stock in each of the 12 industries from 1981 to 2004. There will be one file for each industry. (b) GAP Earnings per share for each stock in each of the 12 industries from 1981 to 2004, in the month in which the earnings were reported. If there is no reported earnings in a month, it will be represented by the number, -9999. Again, there will be one file for each industry. (c) You will also get an estimated of the Keim and Madhavan transactions cost measure for each stock each month – see page 10 of Russ Wermer's paper in "Readings" below for a description of this cost measure.

Readings: "Momentum Strategies," by Luis K.C. Chan, Nrasimhan Jegadeesh, Josef Lakonishok, *Journal of Finance*, December 1996. "Is money really smart? New evidence on the relation between mutual fund flows, manager behavior, and performance persistence," by Russ Wermers, working paper, 2004.