University of Zurich[UZH]

Fundamental Momentum Strategy Returns

Master's Thesis

Submitted in partial fulfilment of the requirements for the degree of Master of Arts in Economics and Business Administration

Author
Christoph Rudolf

Supervisor
Prof. Dr. Felix Kübler
Department of Banking and Finance
University of Zurich

Assistant
Runjie Geng

Date of Submission: January 14, 2016

Abstract

The thesis examines the relation between price momentum and earnings momentum on the constituent stocks of the S&P 500 index. The former strategy is further modified to include risk-managed versions. The latter is represented by the standardized unexpected earnings based on two different databases. When both earnings momentum returns series are interpreted as risk factor mimicking portfolios, they together successfully explain the standard price momentum strategy returns, but they fail with the risk-managed versions. By allowing for two states of the economy which are expected to be captured by the two earnings momentum portfolio returns and using a hidden Markov model to reveal these states, the risk-managed versions of the strategy are explained only for one state. The earnings momentum can provide an explanation for the standard price momentum strategy, but only a partial one for the risk managed versions.