RESEARCH SEMINAR

> Thursday, November 16th, 2023
14:00 - 15:30

FINANCE

EMPOWERING CHANGEMAKERS FOR A BETTER SOCIETY

'TAMING MOMENTUM CRASHES'

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ABSTRACT

The returns on conventional momentum portfolios exhibit a predominantly negative, time-varying skewness which deepens during the so-called ``momentum crashes''. This has important implications for the dynamics of the risk-return trade-off associated with momentum investing: the relation between the portfolio expected return and its volatility is time-varying and depends on the conditional skewness of the returns. We explore the economic value of accounting for time-varying skewness to measure momentum risk by comparing the performance of different risk-managed momentum portfolios. A dynamic, skewness-adjusted maximum Sharpe ratio strategy significantly improves upon popular volatility-scaling approaches. Finally, we show that the dynamics of skewness in momentum returns cannot be fully reconciled with an asymmetric exposure to upside and downside market risk.

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