

QMOM | Process & Trade Examples

Alpha Architect US Quantitative Momentum

QMOM seek long-term capital appreciation by investing in securities that have had higher recent total return performance compared to other securities.

Standardized Returns as of 3/31/2024

Name	Ticker	Inception Date	1 Yr.		Annualized 3 Yr. Total Return		Annualized 5 Yr. Total Return		Annualized Return Since Inception		Expense Ratios	
			NAV	Mkt.	NAV	Mkt.	NAV	Mkt.	NAV	Mkt.	Gross	Net
Alpha Architect US Quantitative Momentum	QMOM	12/1/2015	31.98%	32.29%	4.90%	5.10%	15.52%	15.57%	11.30%	11.57%	0.29%	0.29%

Source: YCharts. **Investing involves risk, including the loss of principal. Past performance does not guarantee future results.** Returns are annualized total returns, except for those periods of less than one year, which are cumulative. **The performance data quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. For performance data current to the most recent month end, please call (215) 882-9983 or visit www.alphaarchitect.com/funds.** Market price returns are based upon the closing composite market price and do not represent the returns you would receive if you traded shares at other times. A fund's NAV is the sum of all assets less any liabilities, divided by the number of shares outstanding.

What is momentum investing?

Momentum investing is simple **but may not be intuitive.**

- **Simple:** buy the stocks that have had better returns relative to other stocks.
- **Not intuitive:** that sounds so simple it shouldn't work. *That sounds like a recipe for losing money.*

But it does (no less than Nobel Prize-winner Eugene Fama described momentum as “the premier anomaly”)¹.

Why?

Lots of reasons, but rest assured, **the investing rules of gravity – buy low, sell high – still apply.**

¹Fama, E. and K. French, 2008, Dissecting Anomalies, The Journal of Finance, 63, pg. 1653-1678. <https://www.jstor.org/stable/25094486>

“So, you just buy stocks that have gone up?”

Stock market prices aren't always perfect, usually because humans are involved. This means there are opportunities to potentially make money when the market under- or overreacts to information.

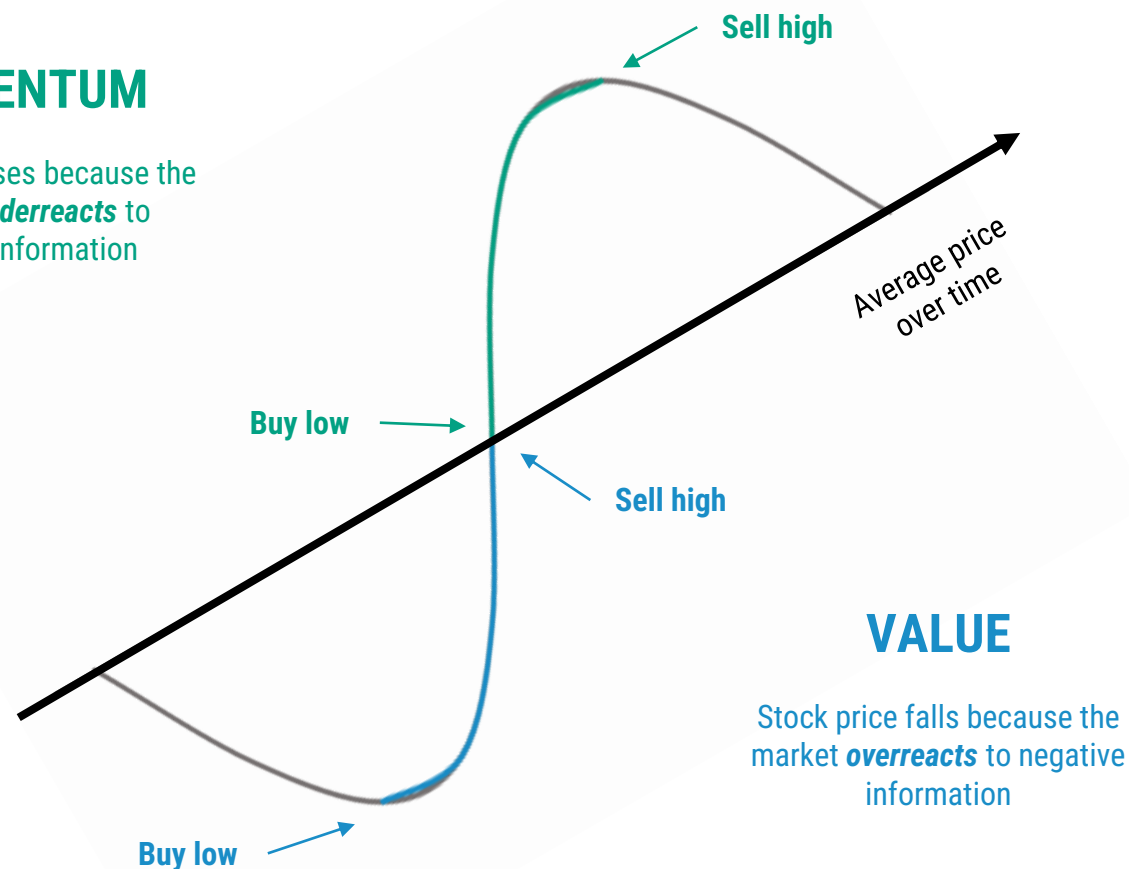
Whether its a string of positive earnings, a change in management, or something exogenous (like inflation), the best momentum stocks often fly under the radar because the **market is underreacting to the stock's positive information**.

Like value investing, by the time the rest of the market has recognized the opportunity, the window to generate excess returns has largely passed.

Therefore, **the challenge** is to buy stocks that have strong momentum that we believe are likely to see a continuation in price appreciation, then sell before the stock experiences a reversal.

MOMENTUM

Stock price rises because the market **underreacts** to positive information

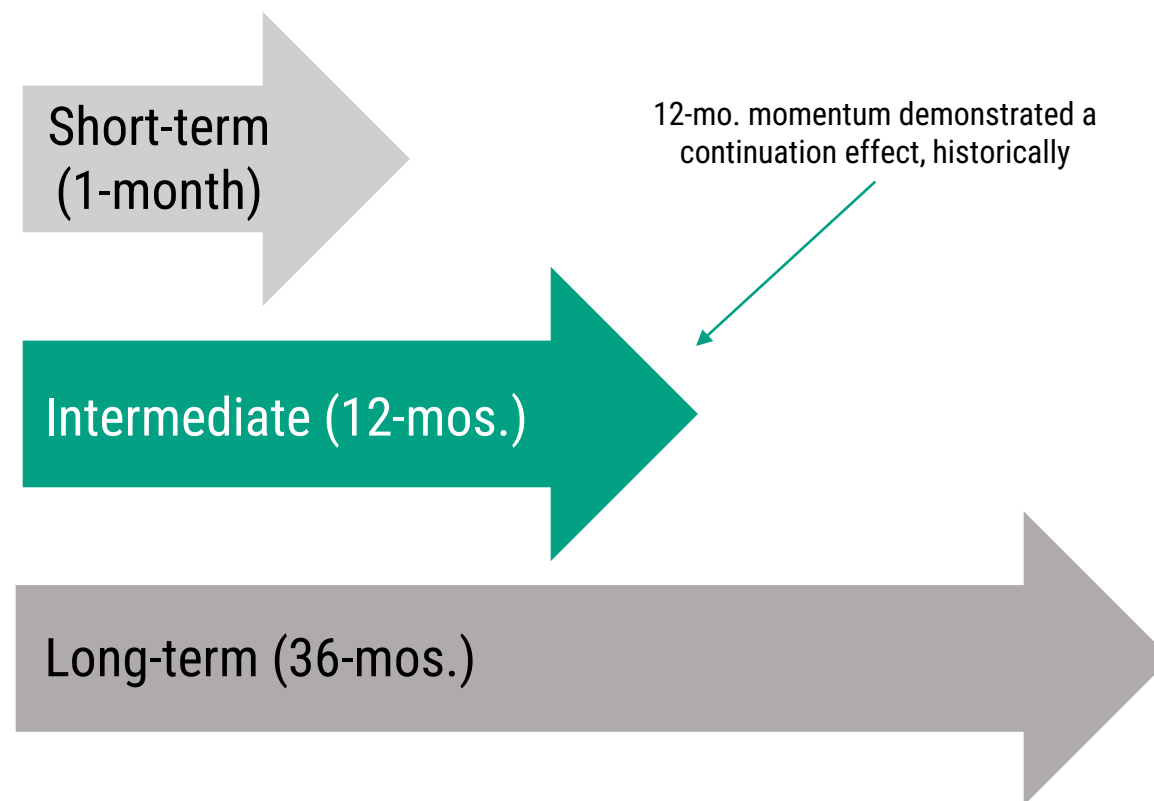


How to measure momentum?

Academic inquiry² into this question measured the results over three windows: short, intermediate, and long-term.

- **Short-term momentum** demonstrated a reversal effect³, historically.
- **Long-term momentum** demonstrated a reversal effect³, historically.
- **Intermediate-term momentum** demonstrated a continuation effect⁴, historically.

We use **2-12 momentum**, which measures stocks based on their one-year total returns, excluding the last month of returns (we exclude the last month's returns to account for a well-documented reversal effect).

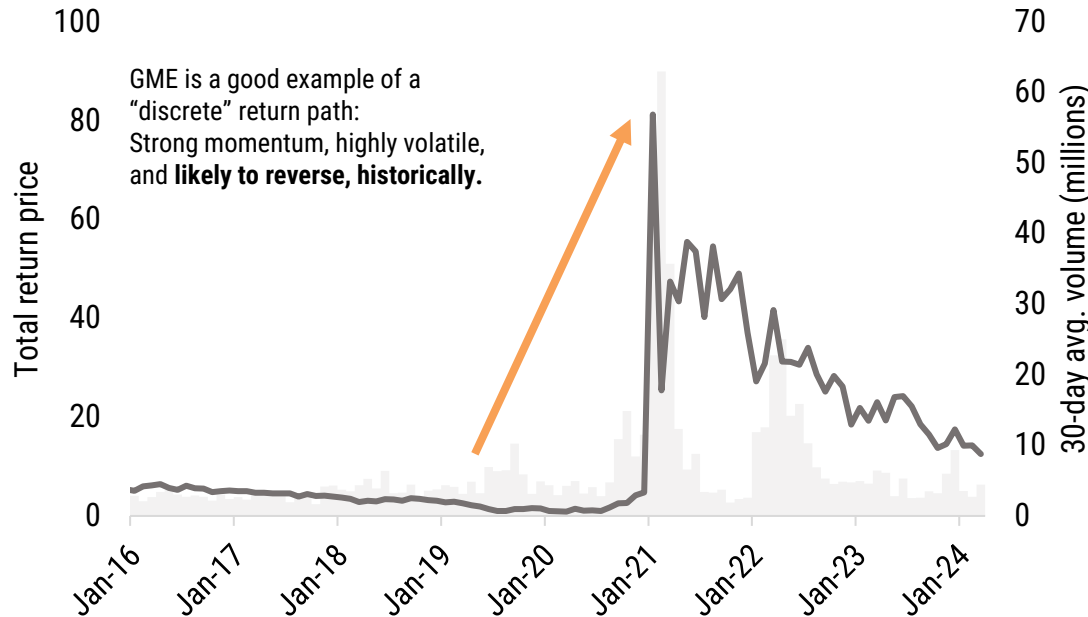


²JEGADEESH, N. and TITMAN, S. (1993), Returns to Buying Winners and Selling Losers: Implications for Stock Market Efficiency. The Journal of Finance, 48: 65-91. <https://doi.org/10.1111/j.1540-6261.1993.tb04702.x>

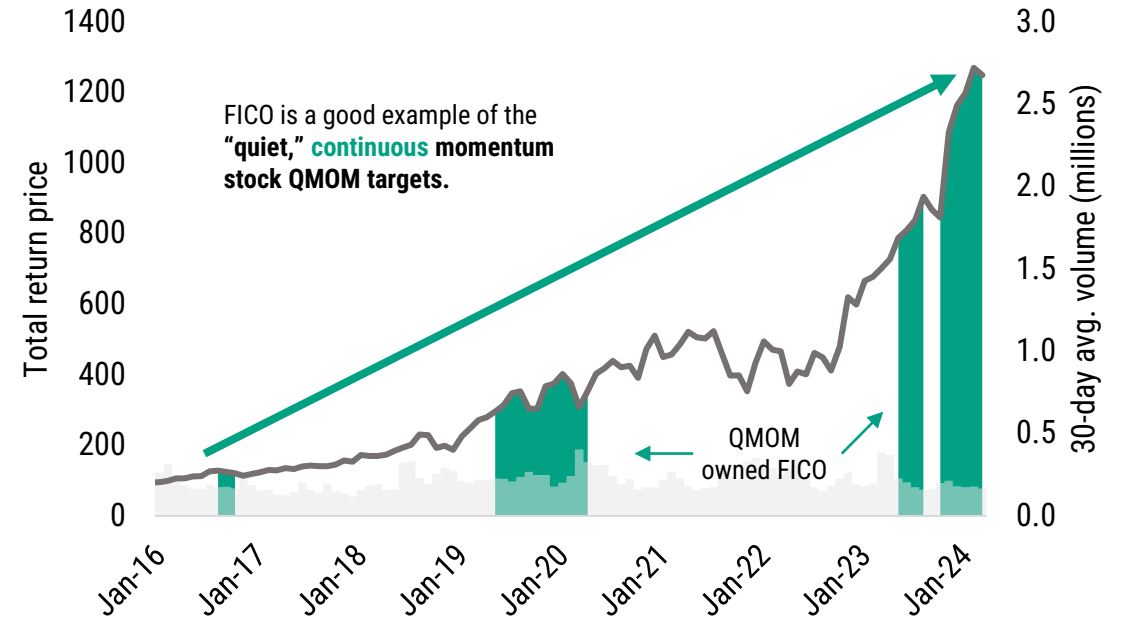
³Reversal effect refers to the tendency of assets to reverse after a period of momentum. ⁴Continuation effect refers to the tendency of assets that have performed well in the past to continue to perform well in the future.

Discrete vs. Continuous | Academic research has found that stocks that exhibit a series of frequent incremental changes over time (“continuous”) are more attractive than stocks with infrequent and dramatic changes in price (“discrete”)⁵. **All else being equal, we’d prefer stocks that have made 1% per month for 12 months as opposed to those earning 12% in one month.**

“LOUD” MOMENTUM (**Discrete**)
GameStop (GME)



“QUIET” MOMENTUM (**Continuous**)
Fair Isaac, Corp. (FICO)



⁵Frog-in-the-Pan: Continuous Information and Momentum,” Zhi Da, Umit Gurun, and Mith Awarachka. <https://academic.oup.com/rfs/article-abstract/27/7/2171/1578455>. Source: Alpha Architect, YCharts. 12/1/2015 – 3/31/2024. **Investing involves risk, including the potential for loss of principal.** Visit etfsite.alphaarchitect.com/qmom for current holdings. **30-day avg. volume** describes the average number of shares of a security, like a stock or a bond, traded per day over a 30-day period. It is one measure of a security’s liquidity.

Profile of a portfolio stock

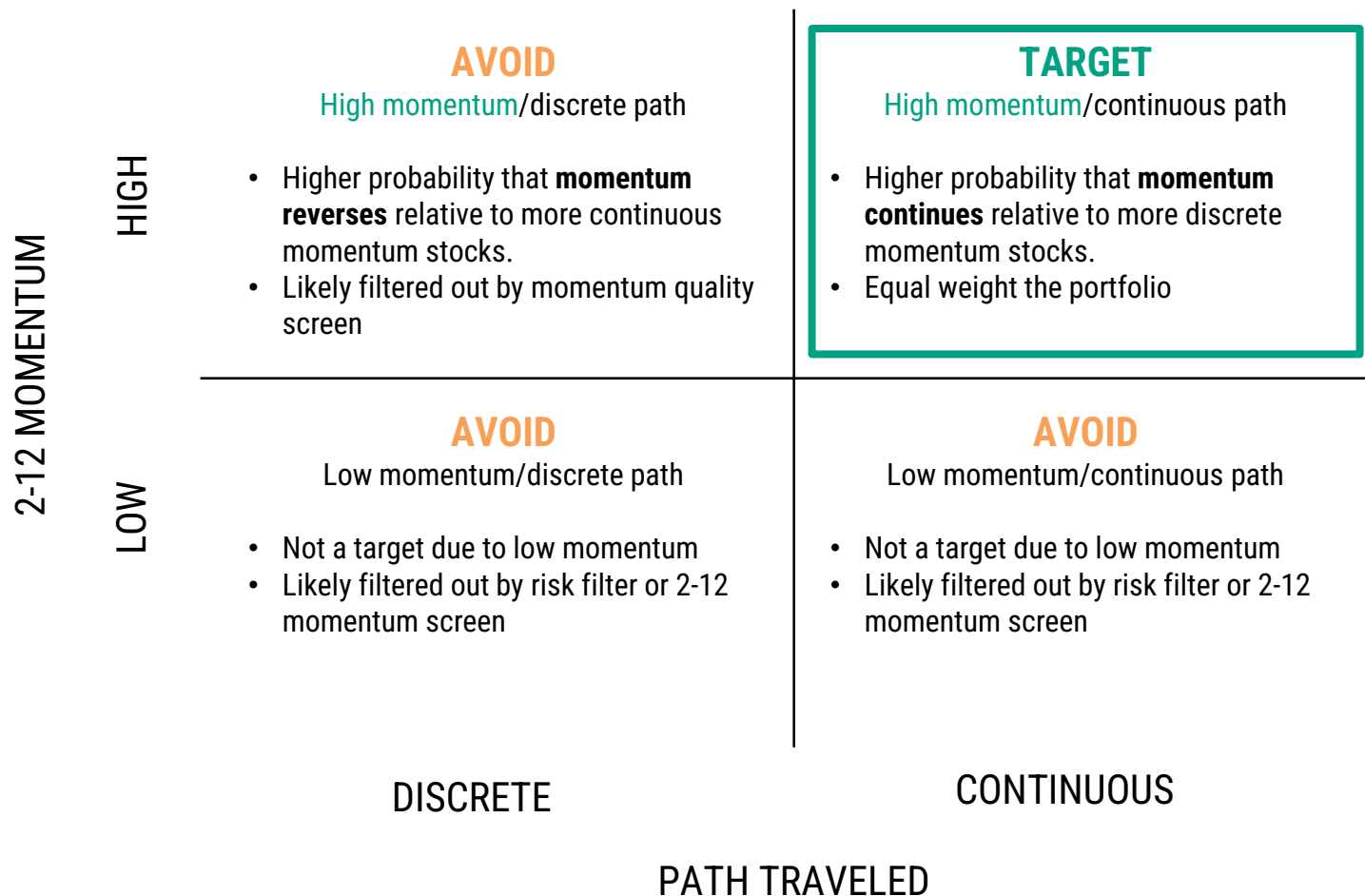
QMOM targets stocks that have:

1. the highest 2-12 relative momentum score
2. Amongst those high momentum stocks, we prefer those stocks with a more “continuous” return path

These two parameters act as the guardrails in our process, which allows us to consider any stock in the US market that meet our criteria.

Additional filters include:

- **Operating company filter.** We remove ETFs, ADRs, CEFs, and REITs to focus only on operating companies.
- **Liquidity filter.** We invest in large, liquid stocks.
- **Risk filter.** We remove stocks with high beta⁶ to the S&P 500 and stocks with low 6- and 9-mo. momentum scores.



⁶**Beta** measures a given investment's sensitivity to the movement of a defined benchmark. In CAPM, it is used to represent systematic risk. **S&P 500 Index** measures the performance of the 500 largest companies that are in the United States. These companies can vary across various sectors.

Ten most profitable trades

Sector	Name	Ticker	Total Return	Portfolio contribution
Technology	NVIDIA Corporation	NVDA	1027.83%	14.01%
Technology	Coupa Software*	COUP	362.56%	7.91%
Technology	Okta, Inc. Class A	OKTA	237.14%	7.05%
Technology	Paycom Software, Inc.	PAYC	329.27%	6.60%
Cons. Cycl.	Tesla, Inc.	TSLA	277.75%	6.03%
Technology	RingCentral, Inc. Class A	RNG	213.37%	5.46%
Technology	Arista Networks, Inc.	ANET	229.43%	4.66%
Technology	MKS Instruments, Inc.	MKSI	131.98%	4.56%
Technology	Super Micro Computer, Inc.	SMCI	197.90%	4.47%
Materials	Chemours Co.	CC	107.68%	4.17%

Ten least profitable trades

Sector	Name	Ticker	Total Return	Portfolio contribution
Technology	ASGN Incorporated	ASGN	-49.01%	-3.13%
Healthcare	Nektar Therapeutics	NKTR	-56.18%	-2.91%
Cons. Non-Cycl.	Tempur Sealy International, Inc.	TPX	-37.64%	-2.84%
Healthcare	Emergent BioSolutions Inc.	EBS	-54.58%	-2.79%
Industrials	Howmet Aerospace Inc.	HWM	-47.00%	-2.55%
Energy	HF Sinclair Corporation	DINO	-53.30%	-2.54%
Materials	Coeur Mining, Inc.	CDE	-32.95%	-1.92%
Cons. Svcs.	International Game Technology PLC	IGT	-40.44%	-1.90%
Technology	Seagate Technology Holdings PLC	STX	-38.29%	-1.86%
Energy	Valero Energy Corporation	VLO	-41.38%	-1.85%

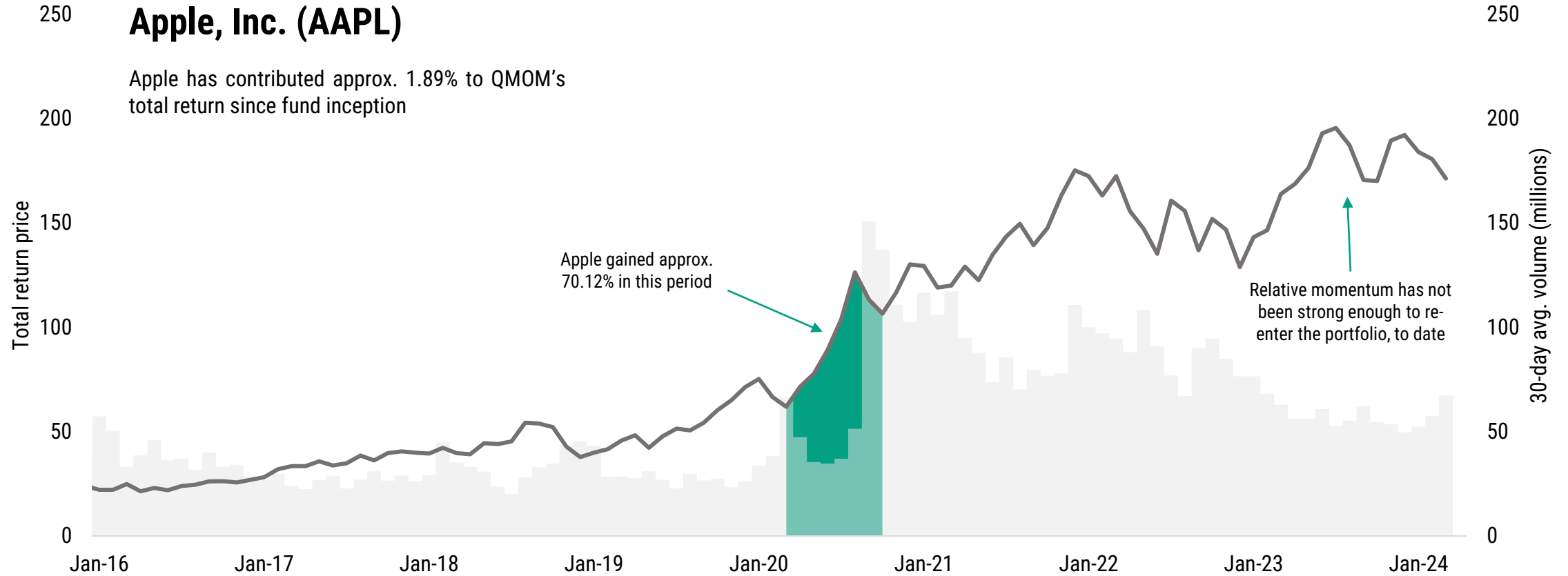
Source: Alpha Architect, FactSet. Returns are believed to be accurate but are not guaranteed. Portfolio holdings are subject to change. Sector definitions are available in the [disclosures section](#). Sectors based on the RBICS Economies taxonomy. **Investing involves risk, including the potential for loss of principal.** For the most up-to-date holdings, visit etfsite.alphaarchitect.com/qmom. *Delisted as of 2/23/2023.

Trade examples

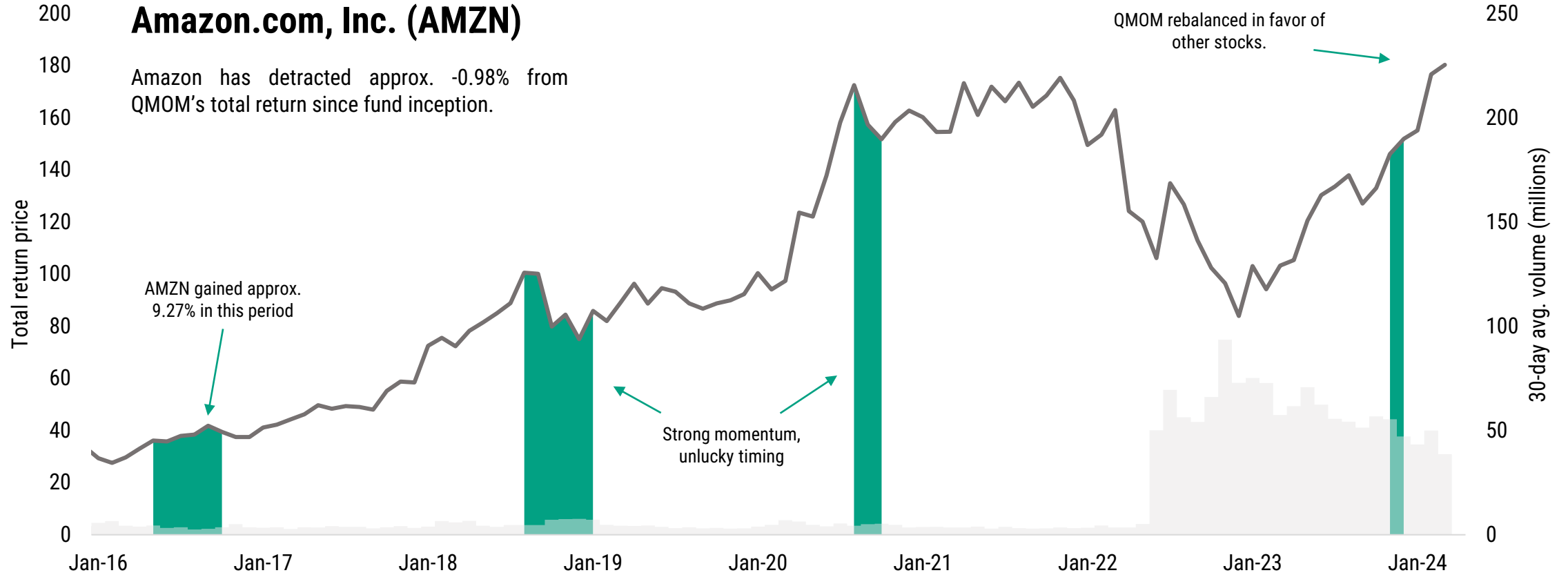
QMOM's process in action

The “Magnificent Seven”

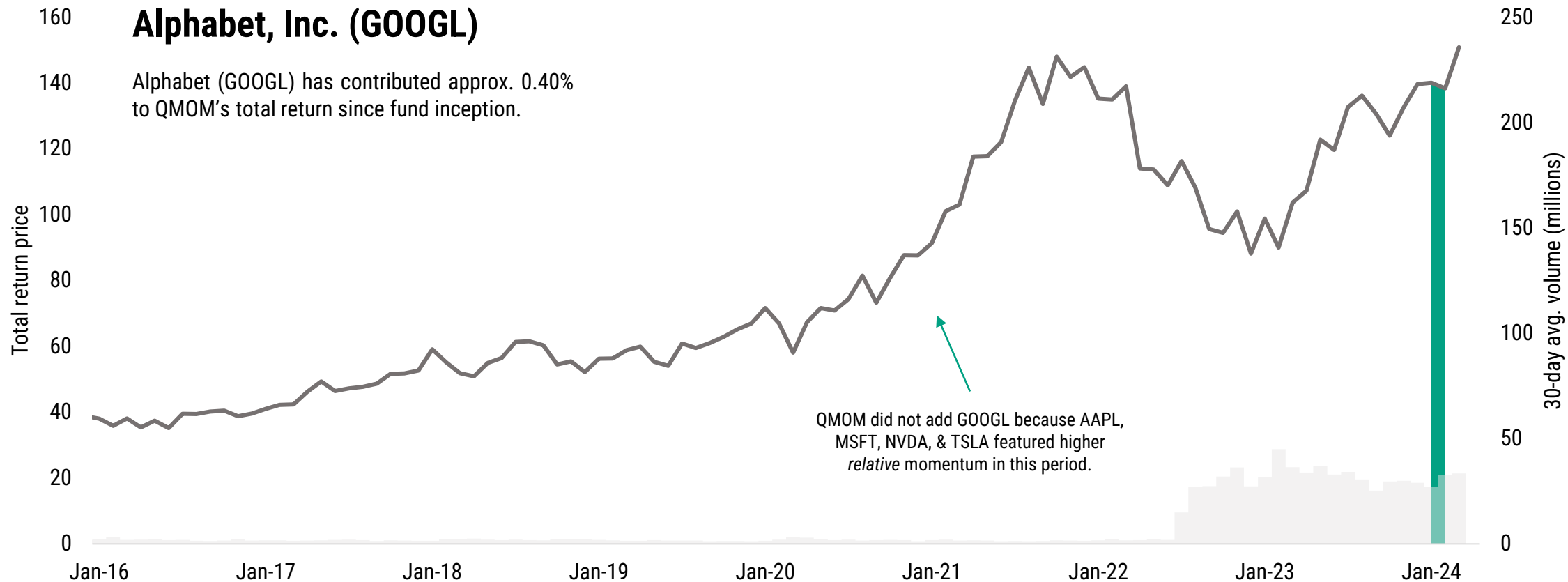
AAPL, AMZN, GOOGL, MSFT, META, NVDA, TSLA



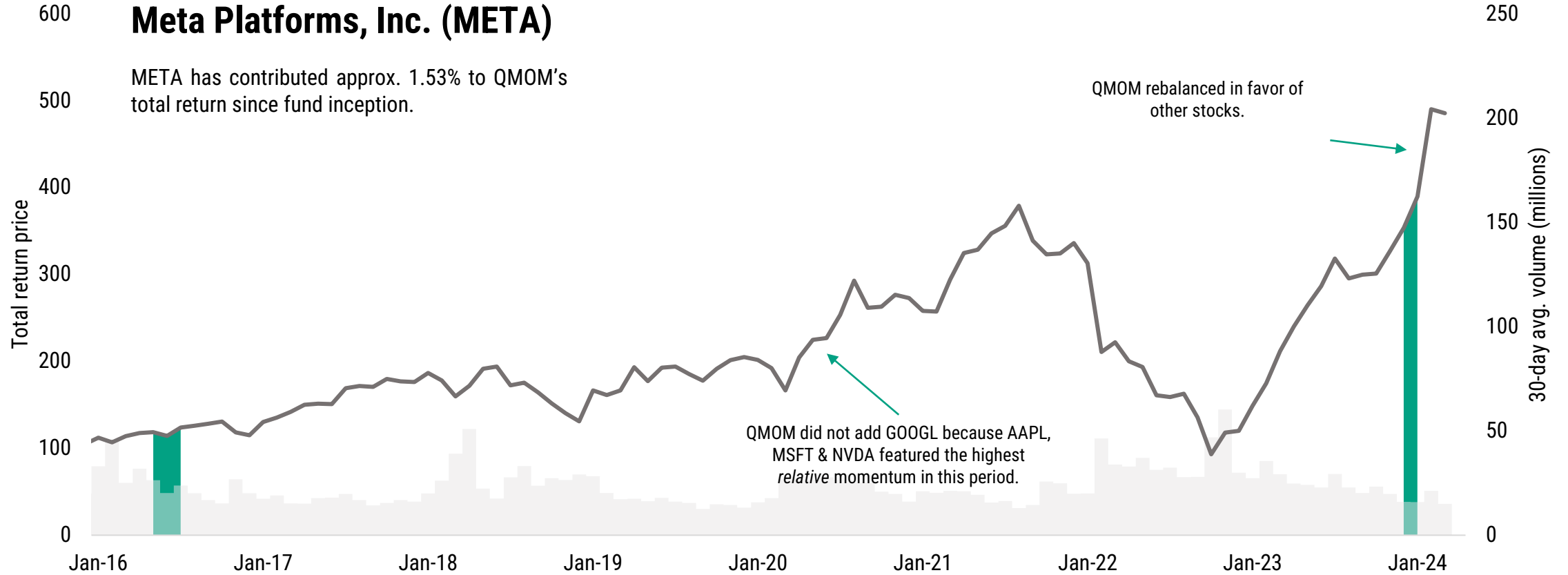
Source: Alpha Architect, FactSet, YCharts. 12/1/2015 – 3/31/2024. *Investing involves risk, including the potential for loss of principal.* Visit etfsite.alphaarchitect.com/qmom for current holdings. **30-day avg. volume** describes the average number of shares of a security, like a stock or a bond, traded per day over a 30-day period. It is one measure of a security's liquidity.



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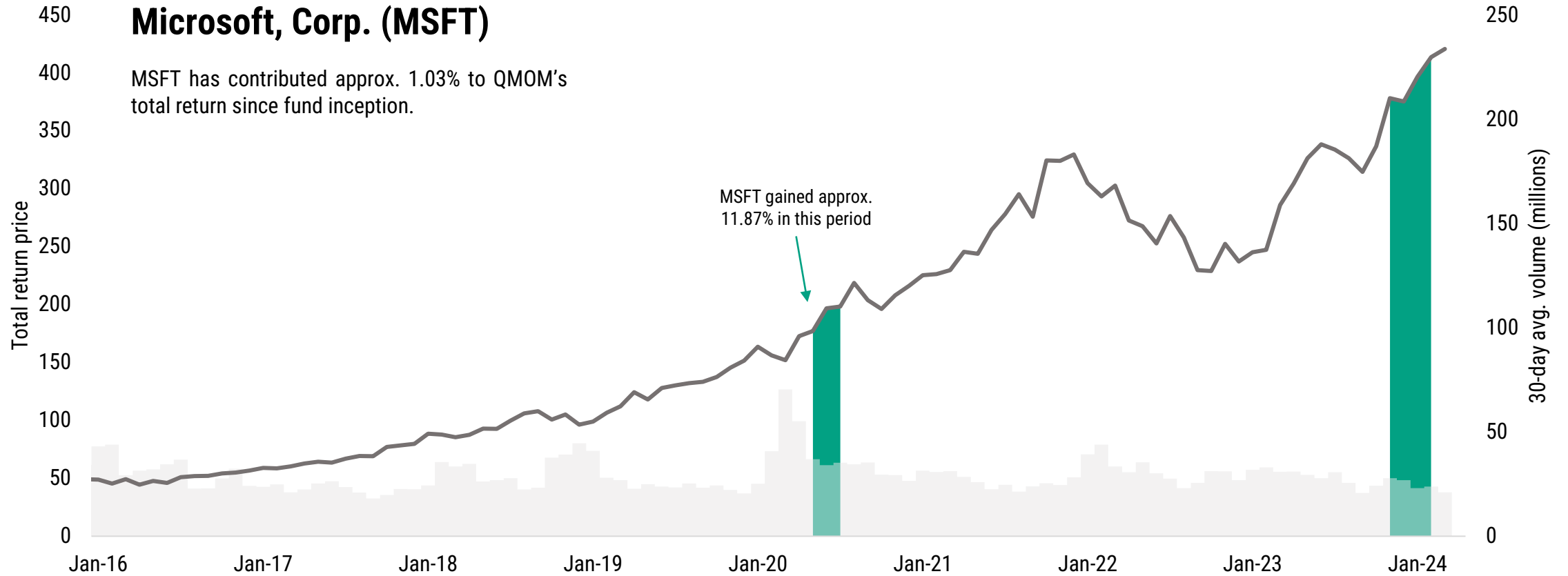
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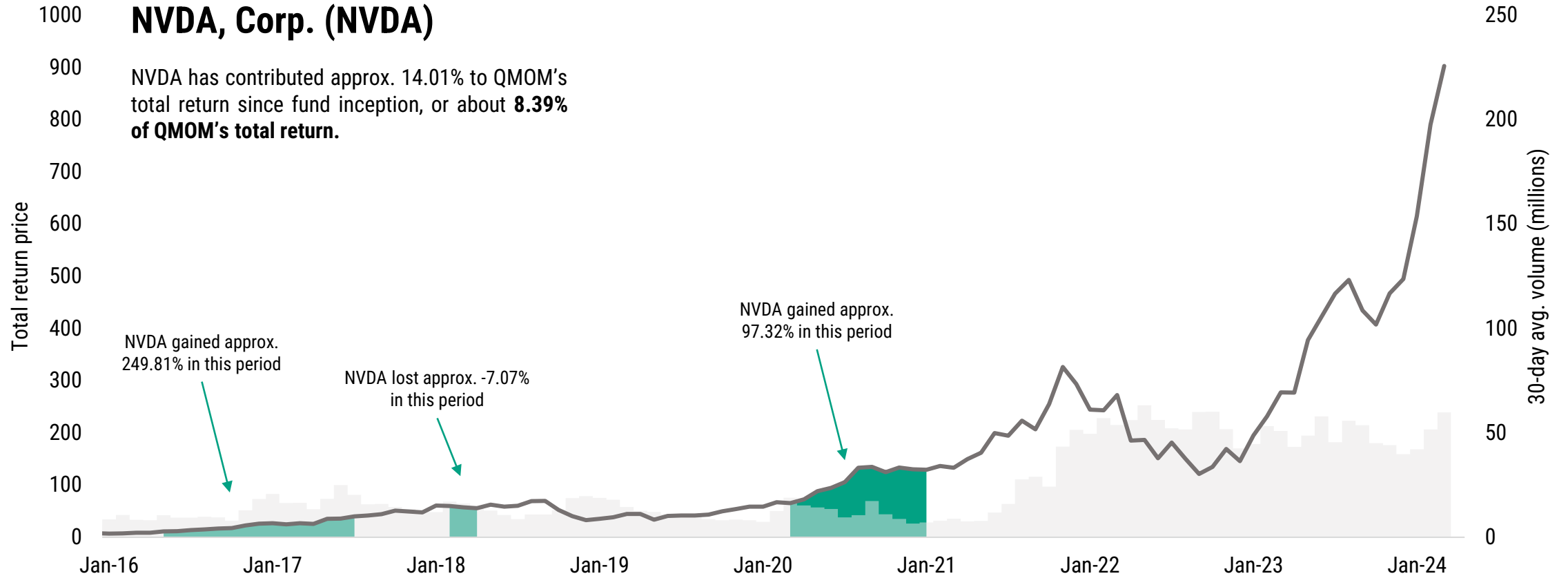
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Microsoft, Corp. (MSFT)

MSFT has contributed approx. 1.03% to QMOM's total return since fund inception.



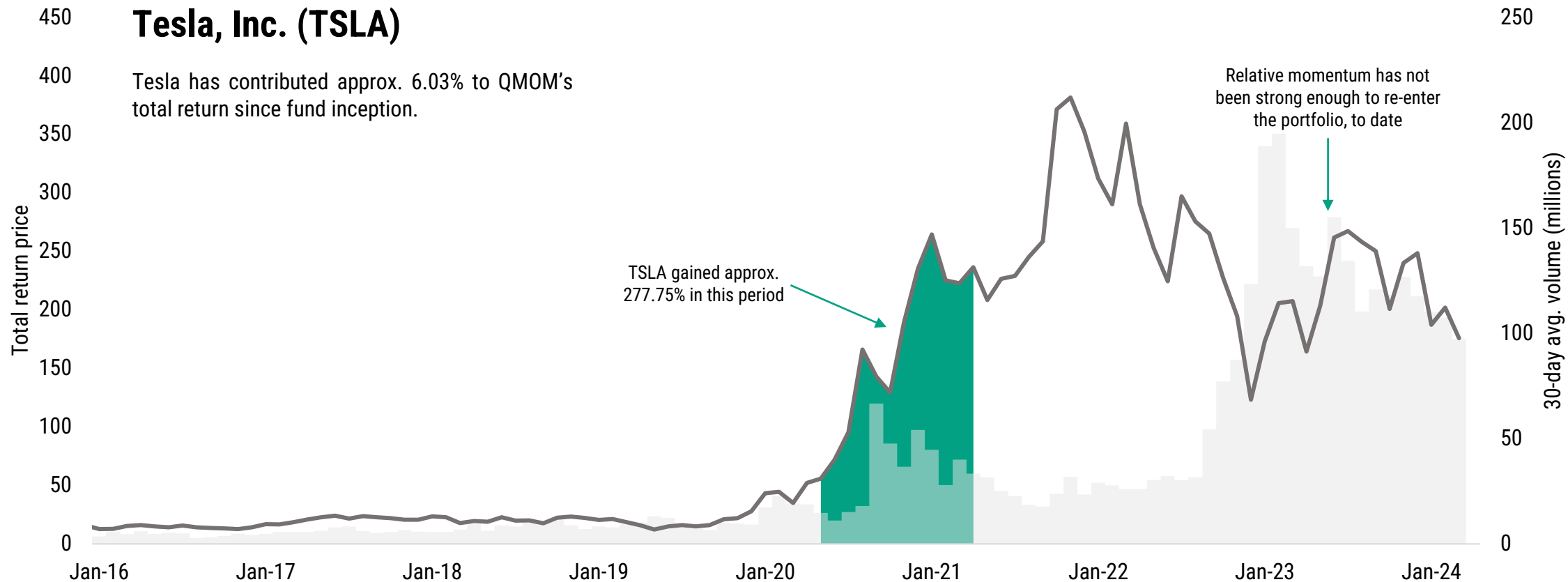
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Tesla, Inc. (TSLA)

Tesla has contributed approx. 6.03% to QMOM's total return since fund inception.



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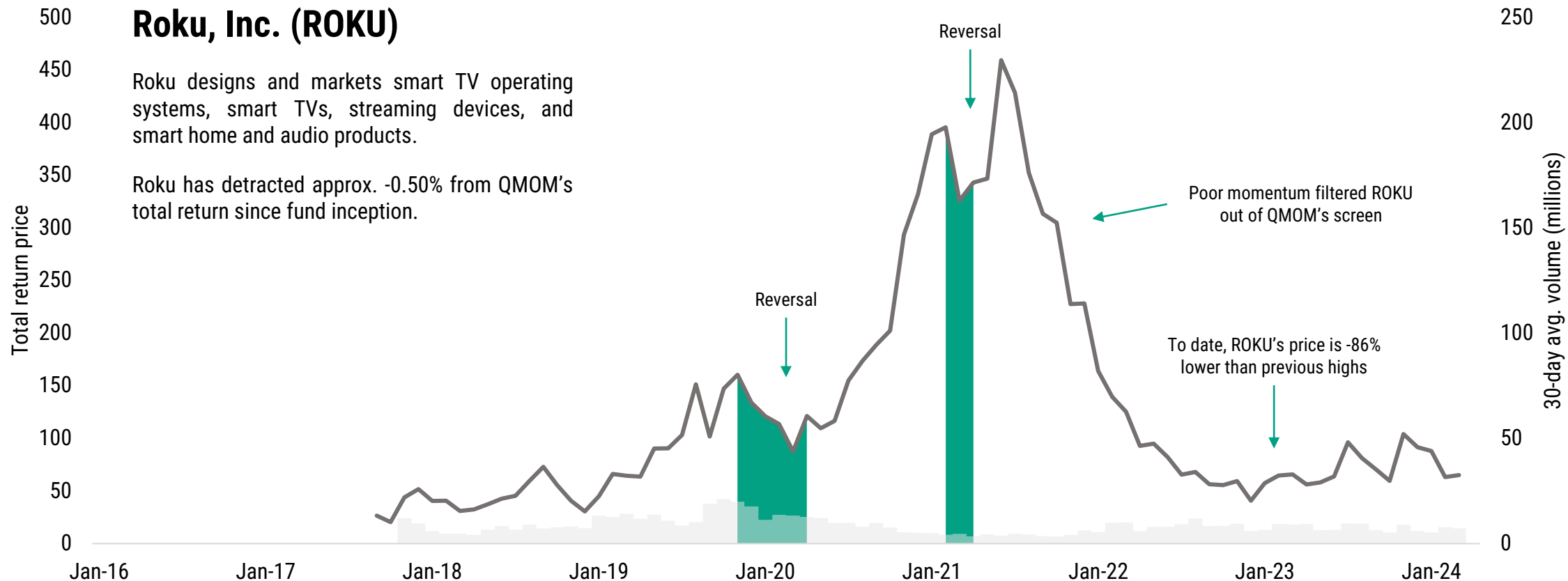
Our process may avoid downside moves

ROKU, ZM, MSTR, BA

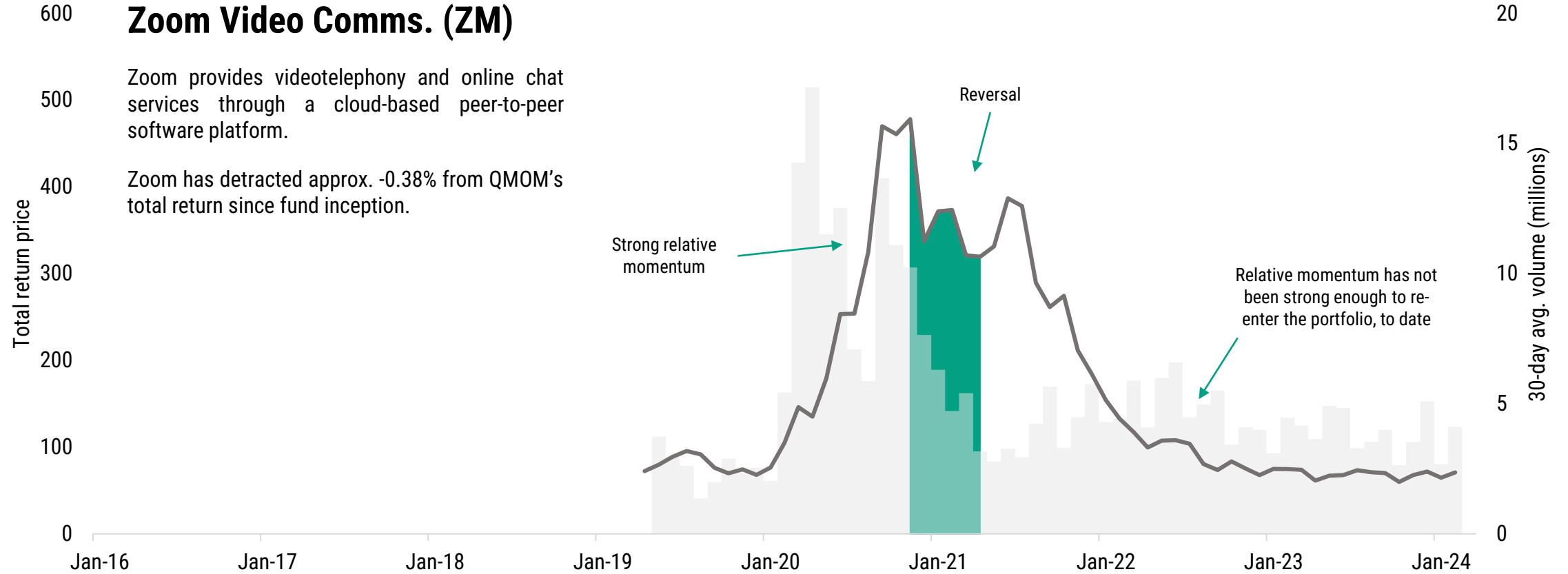
Roku, Inc. (ROKU)

Roku designs and markets smart TV operating systems, smart TVs, streaming devices, and smart home and audio products.

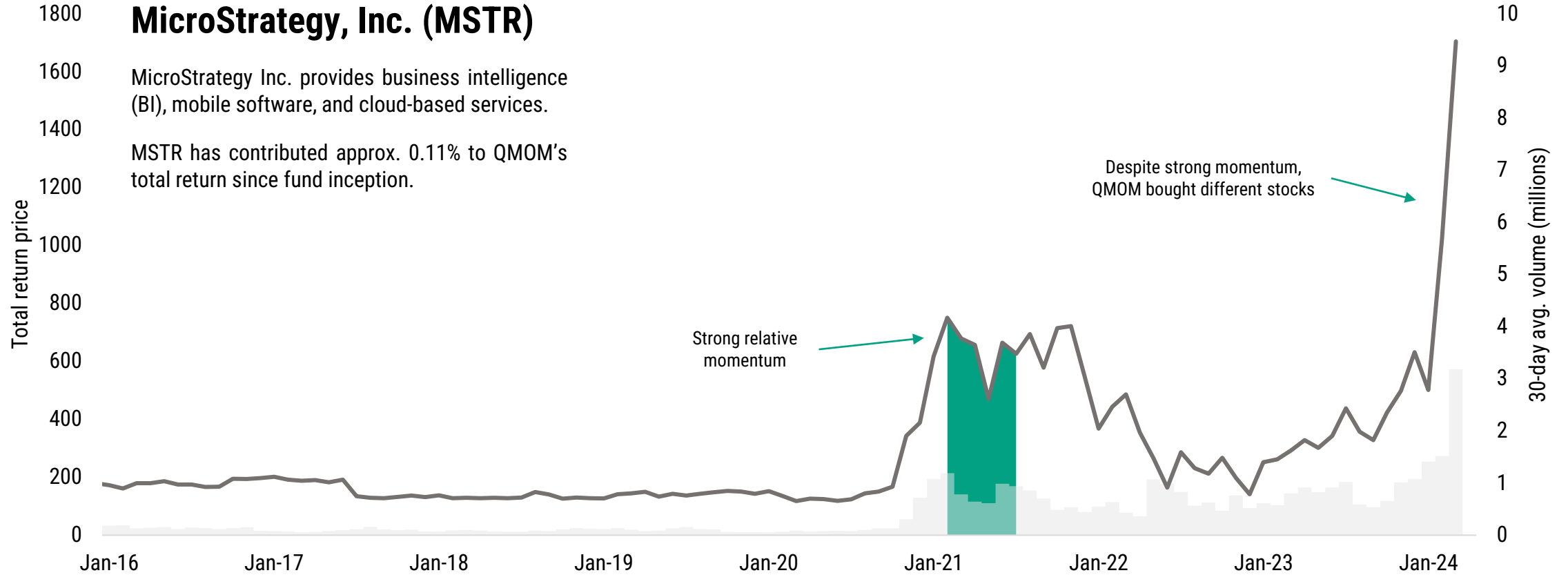
Roku has detracted approx. -0.50% from QMOM's total return since fund inception.



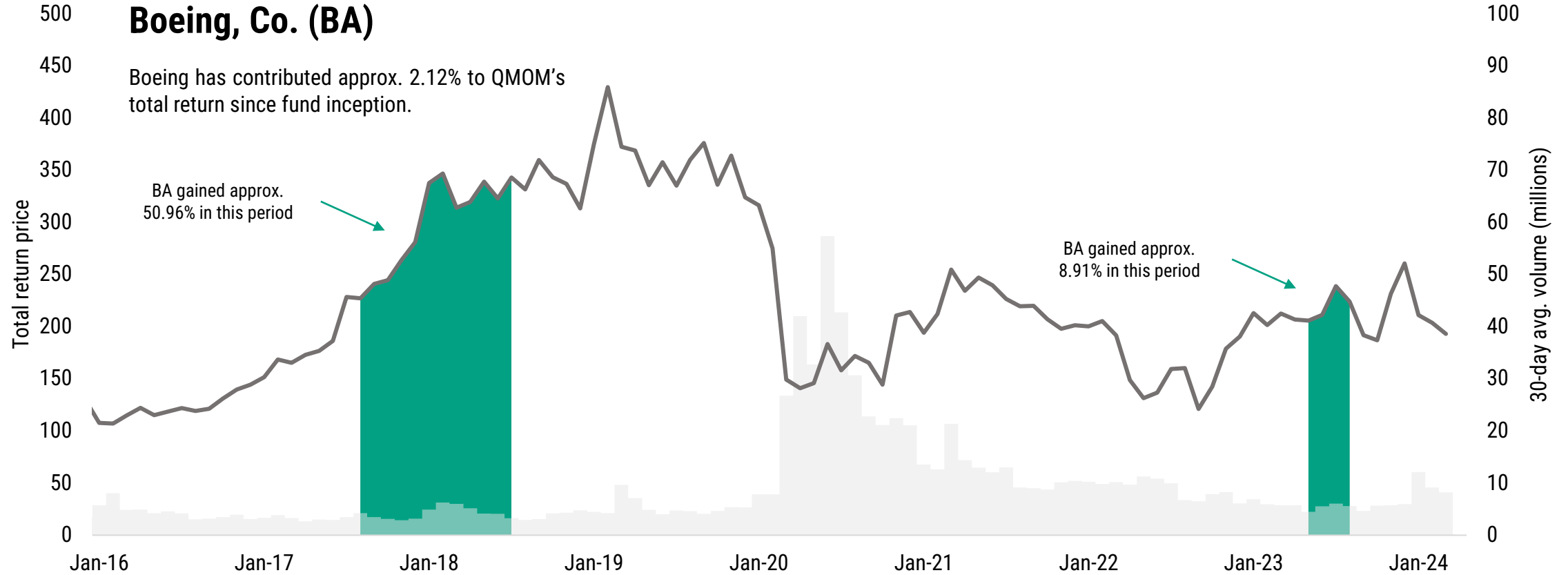
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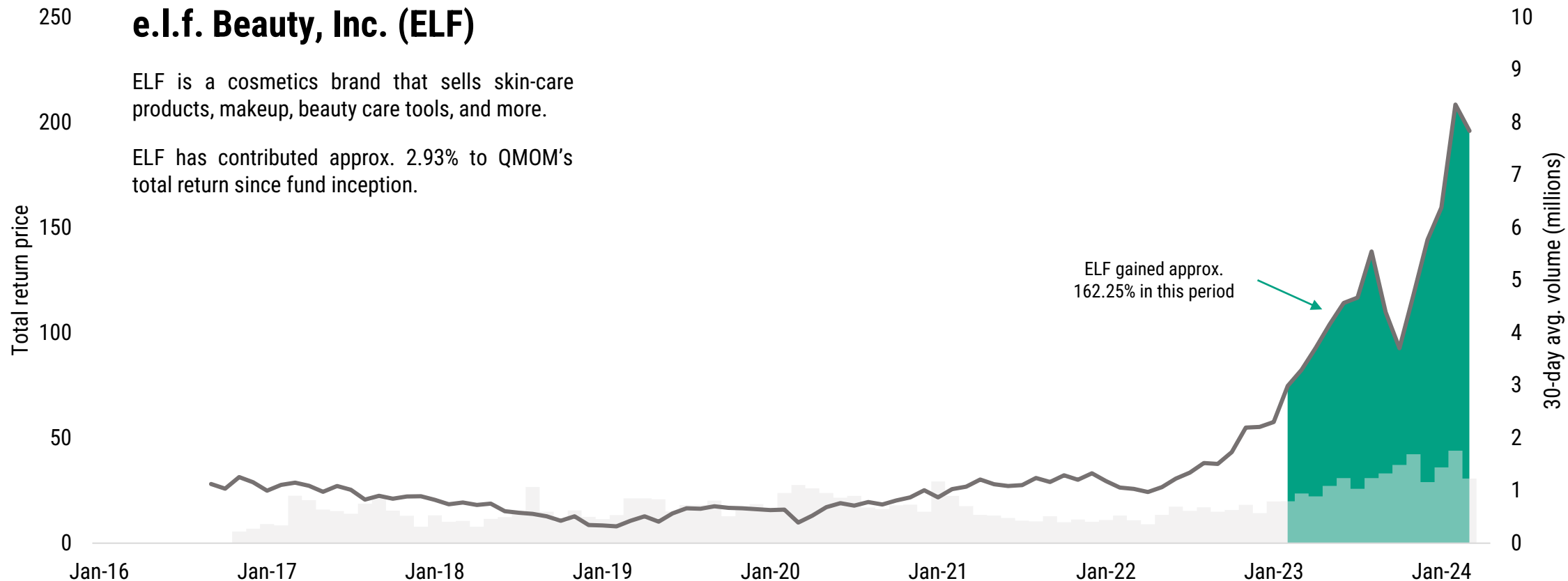
Our process seeks continuous momentum

ELF, SMCI, FICO

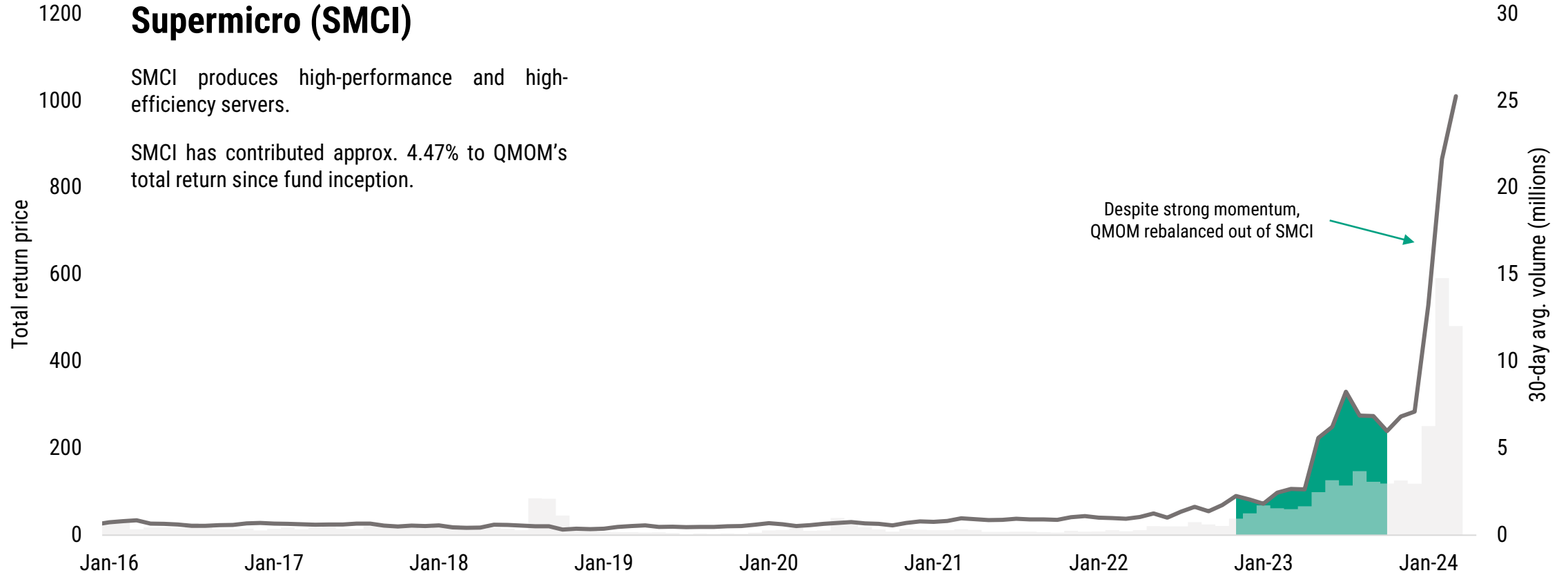
e.l.f. Beauty, Inc. (ELF)

ELF is a cosmetics brand that sells skin-care products, makeup, beauty care tools, and more.

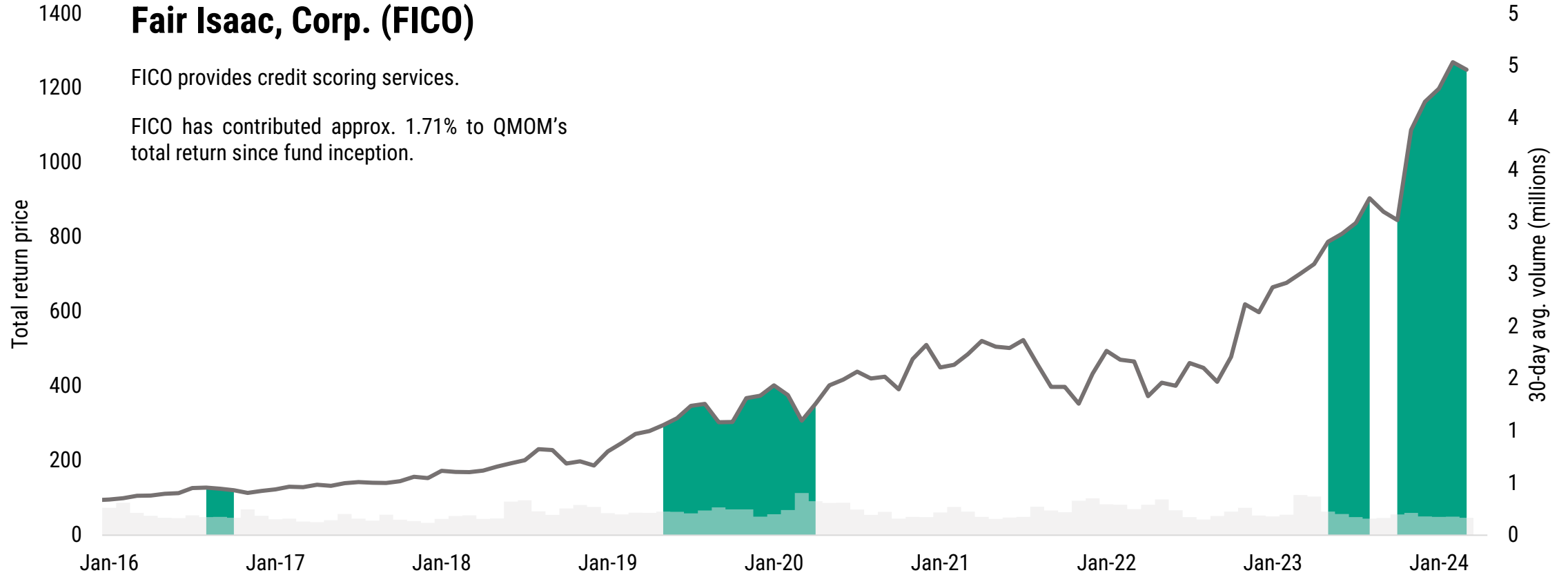
ELF has contributed approx. 2.93% to QMOM's total return since fund inception.



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Summary

Target strongest momentum stocks

We use 2-12 momentum to identify the stocks we believe have the **highest relative momentum**, accounting for the well-known reversal effect (consistent with academic methods)

Filter for high quality continuous returns

Stocks with both high momentum and a continuous return path suggest the market may be underreacting to a string of positive information. Filter for stocks that make **1% a month for 12 months instead of 12% in a month**

Invest with conviction

Invests in 200 stocks or fewer that meet our criteria. We equal-weight our portfolio to equalize return opportunities across the portfolio.

Rebalance frequently

We rebalance frequently **to refresh the portfolio** with the stocks featuring the strongest, highest quality momentum.

Alpha Architect Executive Team



Wesley R. Gray, PhD

Alpha Architect CEO | co-CIO | Portfolio Manager

- PhD/MBA from the University of Chicago – Booth School of Business, where he studied under Nobel Prize Winner Eugene Fama
- B.S. The Wharton School of the University of Pennsylvania, *magna cum laude*
- United States Marine Corps Captain (2004-2008)
- Published in multiple academic journals, including the Journal of Portfolio Management, the Journal of Investing, the Journal of Quantitative Finance, and more. Authored or co-authored four books.



Jack R. Vogel, PhD

Alpha Architect co-CIO | CFO | Portfolio Manager

- Ph.D. Finance and an MS in Mathematics from Drexel University
- BS in Mathematics and Education, *summa cum laude* from The University of Scranton
- Published in multiple academic journals, including the Journal of Portfolio Management, the Journal of Investing, the Journal of Quantitative Finance, and more. Co-authored two books.

Let's talk
next steps.

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See a model portfolio

We've built a series of model portfolios that weight our funds alongside third-party strategies to offer what we believe to be reasonable, cost-effective solutions. Click the link to visit our model site.

Attend our next webinar

The Alpha Architect teams hosts monthly webinars to provide live commentary on recent performance and current positioning. Click the link to register on our Events page.

Schedule a consultation

Whether it's a few follow-up questions or looking for a deep dive, a conversation is often the fastest way to get answers. [Find a time to speak to our team.](#)

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Investing involves risk, including possible loss of principal. Asset allocation and diversification may not protect against market risk, loss of principal, or volatility of returns. Investors should read and consider the information carefully before investing.

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Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. Non-investment-grade debt securities (high-yield/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities. Some investors may be subject to federal or state income taxes or the Alternative Minimum Tax (AMT). Capital gains distributions, if any, are taxable. An investment in a treasury Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency and its return and yield will fluctuate with market conditions.

International investing involves risks, including risks related to foreign currency, limited liquidity, less government regulation and the possibility of substantial volatility due to adverse political, economic or other developments. These risks often are heightened for investments in emerging/developing markets and in concentrations of single countries. Funds that concentrate investments in specific industries, sectors, markets or asset classes may underperform or be more volatile than other industries, sectors, markets or asset classes and the general securities market.

IMPORTANT INFORMATION

A fund's use of derivatives may reduce a fund's returns and/or increase volatility and subject the fund to counterparty risk, which is the risk that the other party in the transaction will not fulfill its contractual obligation. A fund could suffer losses related to its derivative positions because of a possible lack of liquidity in the secondary market and as a result of unanticipated market movements, which losses are potentially unlimited. There can be no assurance that any fund's hedging transactions will be effective.

There can be no assurance that performance will be enhanced or risk will be reduced for funds that seek to provide exposure to certain quantitative investment characteristics ("factors"). Exposure to such investment factors may detract from performance in some market environments, perhaps for extended periods. In such circumstances, a fund may seek to maintain exposure to the targeted investment factors and not adjust to target different factors, which could result in losses.

Alternative investments present the opportunity for significant losses and some alternative investments have experienced periods of extreme volatility. Alternative investments may be less liquid than investments in traditional securities.

Commodities' prices may be highly volatile. Prices may be affected by various economic, financial, social and political factors, which may be unpredictable and may have a significant impact on the prices of precious metals.

Actively managed funds do not seek to replicate the performance of a specified index. Actively managed funds may have higher portfolio turnover than index funds.

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Investing involves risk, including loss of principal.

Investment risk. When you sell your Shares of the Fund, they could be worth less than what you paid for them. The Fund could lose money due to short-term interest rate market movements and over longer periods during continued interest rate market movements. Therefore, you may lose money by investing in the Fund.

IMPORTANT INFORMATION

Quantitative security selection risk. The Adviser uses a quantitative model, and its processes could be adversely affected if erroneous or outdated data is utilized. In addition, securities selected using a quantitative model could perform differently from the financial markets as a whole as a result of the characteristics used in the analysis, the weight placed on each characteristic and changes in the characteristic's historical trends.

Small to mid-sized capitalization. The Funds may invest in small to mid-sized capitalization companies or a particular sector making the Fund more sensitive to changing market conditions. Smaller capitalization companies may be more volatile and less liquid than those of more established companies. Investments in foreign securities involve political, economic and currency risks, greater volatility and differences in accounting methods.

Fund-of-funds risks. Because the Funds may invest in other funds, the Funds' investment performance largely depends on the underlying Alpha Architect ETFs. An investor will indirectly bear the principal risks and its share of the fees and expenses of the underlying funds. Some of the underlying funds may be concentrated in a particular sector or invest in smaller to mid-sized capitalization companies making the Fund more sensitive to changing market conditions. Investments in foreign securities involve political, economic and currency risks, greater volatility and differences in accounting methods.

Momentum investing risk. Momentum investing is investing in or having exposure to securities with positive momentum entails investing in securities that have had above-average recent returns. These securities may be more volatile than a broad cross-section of securities. Returns on securities that have previously exhibited momentum may be less than returns on other styles of investing or the overall stock market. Momentum can turn quickly and cause significant variation from other types of investments, and stocks that previously exhibited high momentum may not experience continued positive momentum. In addition, there may be periods when the momentum style is out of favor, during which the investment performance of the Fund using a momentum strategy may suffer.

Value investing risk. Value investing is subject to the risk that intrinsic values of investments may not be recognized by the broad market or their prices may decline. Investments utilizing quantitative methods may perform differently than the market as a result of the characteristics and data used and changes in trends. Periodic reallocation could cause the Fund's market exposure to be affected by significant market movement or lag market direction after a reconstitution.

Hedging strategy risk. Hedging strategies could limit the Fund's gains in rising markets and may expose the Fund to costs to which it would otherwise not have been exposed. The Fund's use of hedging strategies based on mathematical models may not produce the desired result or risk that the Adviser is unable to trade certain derivatives effectively or in a timely manner. The use of derivatives in connection with the Fund's hedging strategies may expose the Fund to losses (some of which may be sudden and could amplify volatility) due to unexpected changes in the market that it would not have otherwise been exposed to if it had only invested directly in equity securities. When the Fund sells futures contracts or other securities short, the Fund is exposed to the risks associated with short sales, which involve certain risks and special considerations. Theoretically, losses from short sales are potentially unlimited.

Derivatives Risk. Derivatives are instruments, such as futures contracts, whose value is derived from that of other assets, rates, or indices. The use of derivatives for non-hedging purposes may be considered to carry more risk than other types of investments.

Commodity Risk. Investing in physical commodities is speculative and can be extremely volatile.

Real Estate Investment Risk. Companies in the real estate sector include companies that invest in real estate, such as real estate investment trusts (REITs) and real estate management and development companies.

IMPORTANT INFORMATION

Non-Diversification Risk. The Fund is non-diversified, meaning that it is permitted to invest a larger percentage of its assets in fewer issuers than diversified funds.

Selling or Writing Options Risk. Writing option contracts can result in losses that exceed the seller's initial investment and may lead to additional turnover and higher tax liability. The risk involved in writing a call option is that there could be an increase in the market value of the underlying or reference asset.

Buying or Purchasing Options Risk. If a call or put option is not sold when it has remaining value and if the market price of the underlying asset, in the case of a call option, remains less than or equal to the exercise price, or, in the case of a put option, remains equal to or greater than the exercise price, the buyer will lose its entire investment in the call or put option.

Box Spread Risk. A Box Spread is a synthetic bond created by combining different options trades that have offsetting spreads (e.g., purchases and sales on the same underlying instrument, such as an index or an ETF, but with different strike prices). If one or more of these individual option positions are modified or closed separately prior to the option contract's expiration, then the Box Spread may no longer effectively eliminate risk tied to the underlying asset's price movement.

FLEX Options Risk. FLEX Options are exchange-traded options contracts with uniquely customizable terms like exercise price, style, and expiration date. Due to their customization and potentially unique terms, FLEX Options may be less liquid than other securities, such as standard exchange listed options.

Counterparty Risk. Counterparty risk is the risk that a counterparty to a financial instrument held by the Fund or by a special purpose or structured vehicle invested in by the Fund may become insolvent or otherwise fail to perform its obligations, and the Fund may obtain no or limited recovery of its investment, and any recovery may be significantly delayed.

DEFINITIONS

Large-cap stocks represented by stocks in the top 70% of the capitalization of the U.S. equity market.

Mid-cap stocks represented by stocks in the middle 20% of the capitalization of the U.S. equity market.

Small-cap stocks represented by stocks in the last 10% of the capitalization of the U.S. equity market.

Blend style is assigned to portfolios where neither growth nor value characteristics predominate.

Growth style is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

Value style is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

Correlation measures the degree to which two variables move in relation to each other. Higher correlation implies a tighter relationship.

Market Cap is a measurement of business value based on share price and number of shares outstanding. It generally represents the market's view of a company's stock value and can be a determining factor in stock valuation.

P/E Ratio measures how much an investor is willing to pay for one dollar of earnings. It is calculated by dividing the share price by the annual net income earned by the firm.

Momentum Score is a system that scores companies based on their one-year total returns, excluding the last month of returns. Those that had the greatest returns will have the highest momentum scores, and those with the lowest returns will have the lowest momentum score. Momentum is a characteristic of the security's underlying holdings and should not be construed as performance.

Business Services composed of companies that offer services targeted toward businesses, including administrative, support, janitorial, and professional services.

Consumer Services composed of companies that offer services targeted toward individuals, including accommodation; food and beverage retail; gaming, arts, entertainment and recreation; and television, radio, film, and print media.

Consumer Cyclical composed of companies that offer products targeted toward individual or household use, including apparel, toys, school and art supplies, and electronics; motor vehicle sales and rental, and automotive parts and services; building materials, garden supplies, furniture, appliances, cabinetry, window treatments, and carpets.

Energy composed of companies that primarily engage in oil and gas exploration and production, pipeline transportation, refineries, and oil and gas equipment and services; leasing, mining and processing of coal and coke; uranium, radium, and vanadium mining.

Finance composed of companies that offer financial products and services in banking, insurance, investment, specialty finance, and real estate.

Healthcare composed of companies that offer products and services that are designed, developed, and utilized in the promotion of health and well-being, including medical services, health plans, medical devices, and biopharmaceuticals.

DEFINITIONS

Industrials composed of companies that offer products and services for industrial use or with applications in aerospace, defense, or security; transportation, construction, and related infrastructure; or farming, including equipment and machinery manufacture, wholesale, rental, and distribution and related support activities.

Non-Energy Materials composed of companies that offer basic and intermediate material products, including non-energy mining; forestry, timber logging, and lumber production; and chemical, plastic, paper, metal, and textile manufacturing.

Consumer Non-Cyclicals composed of companies that offer products targeted toward individual and consumer needs, including groceries, beverages, health and personal care items, kitchenware, decorative items, and household cleaning products.

Technology composed of companies that offer semiconductor, electronic, and optics based products and related software and services that directly or indirectly facilitate the creation, transfer, storage, manipulation, or interpretation of data, audio, and video.

Telecommunications composed of companies that offer services designed to promote or enhance transmission of voice, data, and video over various communications mediums, including cable, satellite, terrestrial-based wireless, and wireline mediums.

Utilities composed of companies that offer gas, electricity, and water services delivered directly to residential and commercial users.

The Funds are distributed by Quasar Distributors, LLC. The Fund investment advisor is Empowered Funds, LLC, doing business as Alpha Architect.

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