



## Market Commentary

### Market Outlook (cont):

valuation, are surprising on the upside; and the pullback in stocks, centered in mega-cap digital-economy names, has created a more favorable valuation set-up heading into two of the best stock months from an historical perspective.

### Recommended Investment:

#### iShares World Momentum Factor ETF

Perhaps the strongest deviation from the textbook theory of market efficiency is the success of momentum investing. Good returns on momentum strategies were first spotted in US stocks by finance professors Sheridan Titman and Narasimhan Jegadeesh in 2001 and since then have been discovered in international markets as well as in commodities and currencies. A strategy of buying the 20 biggest rising stocks in the previous 12 months, for example, has returned 151% over the last 10 years versus the 33% rise in the FTSE 350.

The anomaly exists because investors often cling too strongly to their prior beliefs about a stock and therefore do not respond sufficiently to new information. When they see a company announce good news, they think it a flash in the pan from an otherwise average company and so don't bid up its price sufficiently, causing it instead to drift up as reality gradually dawns.

Buying 20 stocks and rebalancing annually can be, however, too much trouble for many investors who do not want to monitor individual stock price movements and end up with a potentially undiversified, by sector, portfolio.

One easy way of obtaining exposure to this theme is to purchase the iShares World Momentum Factor ETF (IWM.L). This is a low-cost Exchange Traded Fund that seeks to reflect the return of the MSCI World Momentum Index. The constituents of this index are selected using a similar strategy of identifying equities that have experienced price increases over the past 6 and past 12 months with the assumption that increases will continue in the future. With a TER of just 0.3% and a 5-year return of +90%, we rate the fund a **strong buy**.