

# Momentum has its moments<sup>1</sup>

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## **Abstract**

Compared with the market, value, or size factors, momentum has offered investors the highest Sharpe ratio. However, momentum has also had the worst crashes, making the strategy unappealing to investors who dislike negative skewness and kurtosis. We find that the risk of momentum is highly variable over time and predictable. Managing this risk virtually eliminates crashes and nearly doubles the Sharpe ratio of the momentum strategy. Risk-managed momentum is a much greater puzzle than the original version.

JEL classification: G11; G12; G17.

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