

Momentum has its moments¹

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Forthcoming in the Journal of Financial Economics

First version: April 2012

This version: November 2014

¹We thank an anonymous referee, Abhay Abhyankar, Eduardo Schwartz, David Lando, Denis Chaves, James Sefton, José Filipe Corrêa Guedes, Kent Daniel, Kristian Miltersen, Lasse Pederson, Nigel Barradale, Pasquale Della Corte, Robert Kosowski, Soeren Hvidkjaer, and numerous seminar participants at BI Norwegian Business School, Copenhagen Business School, CUNEF (Colegio Universitario de Estudios Financieros), Imperial College London, Lubrafin (Luso-Brazilian Finance Meeting), Nova School of Business and Economics, National University of Singapore, Rotterdam School of Management, Universidad Carlos III de Madrid, University of Exeter, and University of New South Wales for their helpful comments and suggestions. A previous version of this paper circulated with the title “Managing the Risk of Momentum.” Pedro Santa-Clara is supported by a grant from the Fundação para a Ciência e Tecnologia (PTDC/EGE-GES/101414/2008).

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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.

Keywords: Anomalies; Momentum; Time-varying risk; Transaction costs of momentum.