SIX CRITERIA FOR AN EFFECTIVE FACTOR FRAMEWORK

STYLE RESEARCH

Fund buyers needs to decide which products to invest in. Fund sellers must differentiate from everyone else. But in the world of excessive factors, disconnected analytics and disparate methodologies, an objective, consistent factor-based approach is the way forward.

Here's a recommended checklist that a good factor framework should satisfy in order to differentiate equity products most effectively.

1 INDEPENDENT

The analysis must be conducted by an independent entity – not by a firm that sells its own investment products or indices.

2 OBJECTIVE

Unbiased, proprietary research and statistical tests must validate the veracity of the factors.

3 PRACTITIONER-ORIENTED

Investment managers, asset owners, consultants, and advisers must confirm relevance based on their real-world experience.

4 ABLE TO DIFFERENTIATE PRODUCTS

The factor framework must distinguish key attributes of equity products within style groups and consider portfolio diversification.

5 SELECTIVE

Analytics must avoid a "factor zoo," focusing on a digestible number of factors to reduce complexity and confusion.

6 EASY TO UNDERSTAND AND COMMUNICATE

Style factor results must be transparent, understandable and communicated visually.

Does YOUR approach meet these criteria?

StyleResearch.com