

ETFSector.com

Research Study: Intermediate-term Momentum Materials Sector

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Momentum Indicator Study Details



ETFSector.com Intermediate-term Momentum Indicator

Construction:

- Indicator Value = (1M (Trailing) Excess Total Returns * 0.2) + (3M Excess Total Returns * 0.5) + 6M Excess Total Returns * 0.3)
- Binning Values by groups of 5
- Averaging coincident 1, 3, 6 and 12-month coincident excess total return vs. reference security by bin

Study Securities:

- Sector Proxy: XLB
- Reference Security: SPY

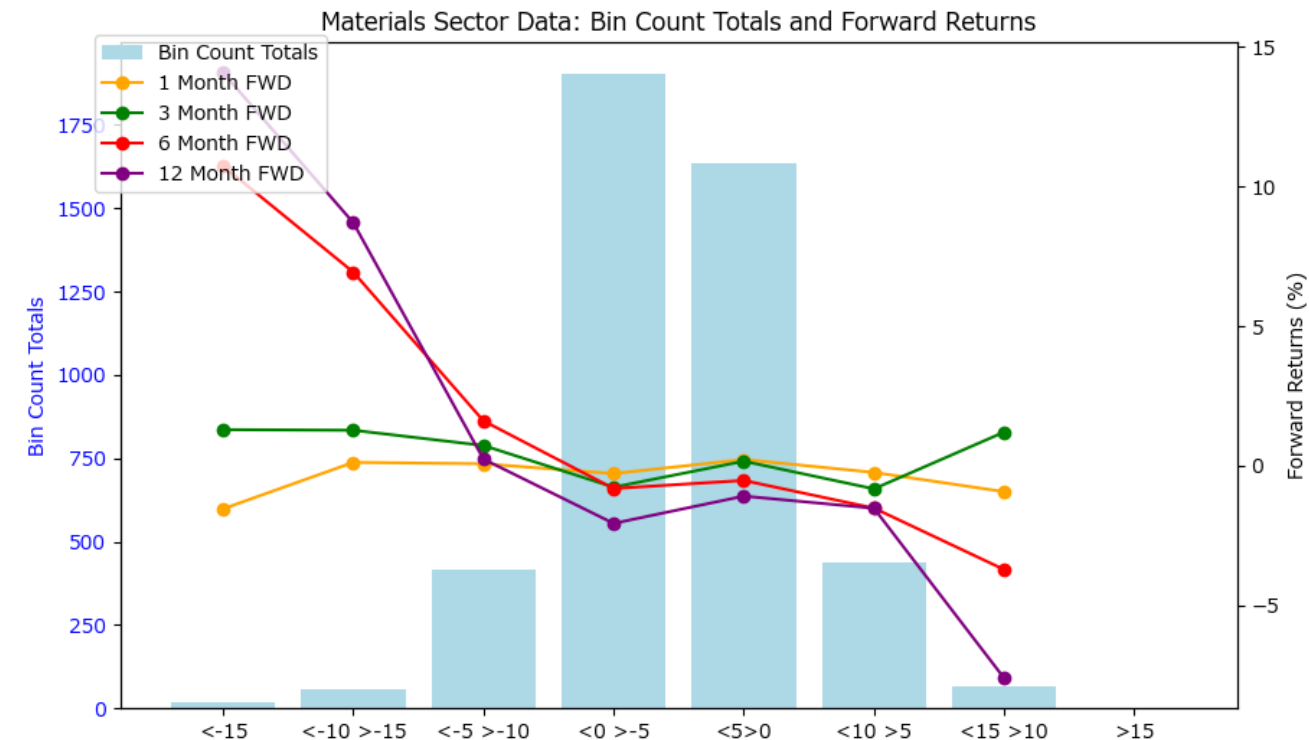
Look Back Period:

- 20 years (Chart)

Objective:

- Insight into the behavior of sector level momentum using a momentum calculation that emphasizes 3-month excess returns
- Identifying historical levels that coincided with positive excess returns

Momentum Indicator Study: Notable Results

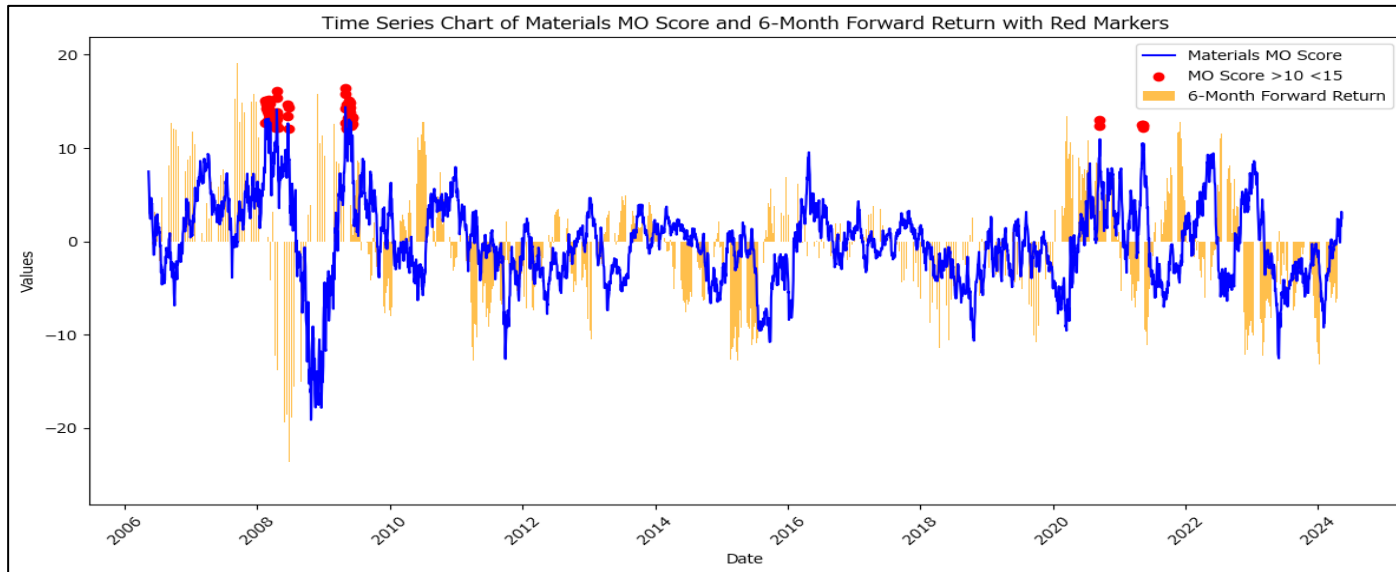
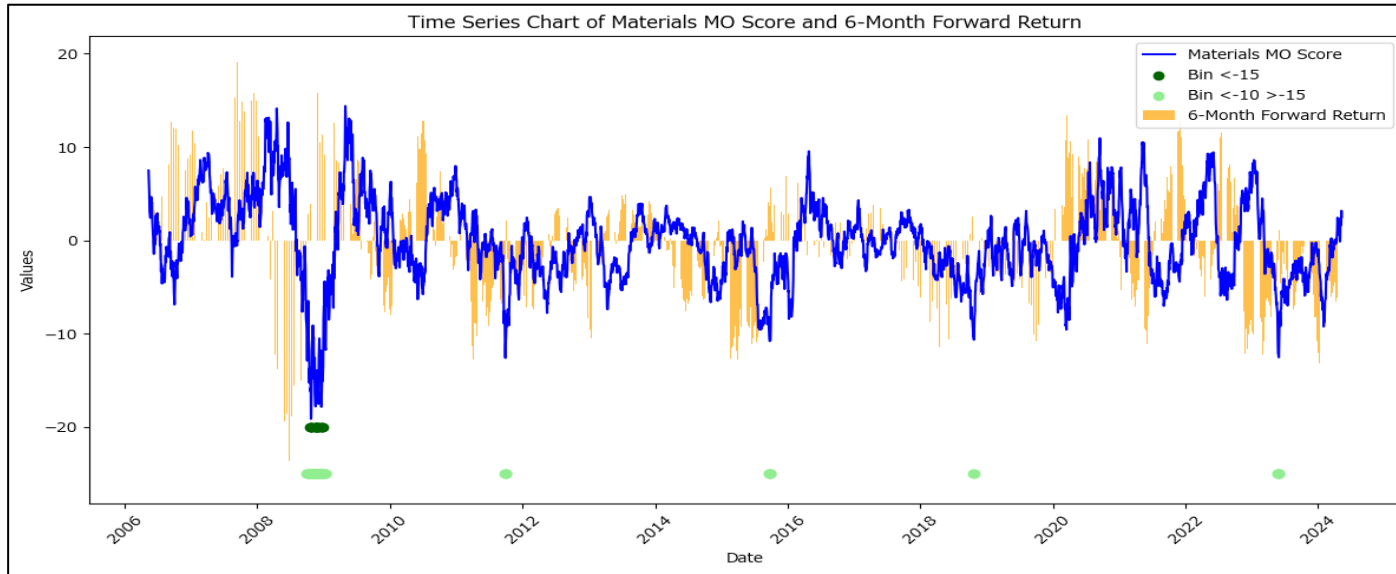


Key Takeaways:

- Potential alpha opportunities from the indicator are highest in the 6-month and 12-month forward window
- Over the 20-year period of study, high momentum scores for the sector coincided with negative forward excess returns
- Scores with Values >-5 coincide with negative forward excess returns on average

Bin	Observations	Avg_1_Month_FWD	Avg_3_Month_FWD	Avg_6_Month_FWD	Avg_12_Month_FWD
<-15	18	-1.546629957	1.290336365	10.73546165	14.07540555
<-10 >-15	59	0.118783681	1.268589917	6.93427611	8.703902625
<-5 >-10	416	0.067623463	0.723192271	1.604696066	0.234413754
<0 >-5	1902	-0.283343218	-0.770500124	-0.818820946	-2.069246157
<5 >0	1635	0.220472428	0.158784144	-0.530196021	-1.091159283
<10 >5	436	-0.242552823	-0.831532511	-1.520500804	-1.526765041
<15 >10	64	-0.931944047	1.202616131	-3.722195294	-7.612217713

Momentum Indicator Study: Insights & Strategy Tips



Insights on the Research:

- **Values <-10** coincided with high average excess returns over 6 and 12-month periods
- **Values > 10** coincided with negative excess returns
- Mapping theoretical Mo Score buy and sell signals shows the -10 level generates strong signals infrequently...an optimized strategy might find a slightly higher level that captures move alpha as we note negative momentum didn't trigger that level in 2020 and 2022 when Materials outperformed
- If we were to implement a trading strategy around this indicator it would include
 - Identifying the -9 and 9 levels as alerts
 - On the alert we'd use a moving average cross over strategy like a 10-day > 50-day crossover to identify potential trend change after the signal
 - Holding period between 6-12 months
 - Longer holding periods with a risk management strategy like a hedge or a trailing stop loss
 - These characteristics would get you in just above the study threshold

Momentum Indicator Study: Recent Signal



- Based on this research the Materials Sector hit a Momentum Buy threshold of -11.05 on 12/12/2024 with the sector Mo Score moving to a low of -14.57 on 12/24/2024
- Given the signal we would expect outperformance over the next 6-months

Bin	Observations	Avg_1_Month_FWD	Avg_3_Month_FWD	Avg_6_Month_FWD	Avg_12_Month_FWD
<-15	18	-1.546629957	1.290336365	10.73546165	14.07540555
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