Christoph Reschenhofer
Combining factors
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Abstract: While the academic literature focuses on beta exposure, most practitioners apply characteristics-based scorings to obtain factor portfolios. This paper explores how firm-level characteristics can be combined for optimal factor portfolios. Portfolios encompassing multiple factors are less volatile and have higher after-cost returns than the market or single factor portfolios. We also demonstrate that buy- and sell-thresholds play a critical role in shaping portfolio return, risk, and turnover preferences. Our empirical findings reveal optimal weights for the combination of individual factors, though we acknowledge the 1/N portfolio as a challenging benchmark.

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4080705
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