DISSECTING INVESTMENT STRATEGIES IN THE CROSS SECTION AND TIME SERIES

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OVERVIEW

- Fund managers either build their signals in cross section (where they are market neutral and have the same amount of long and short exposure) or time series (where they have directional exposure).
- We compare carry, momentum and value strategies in time series and cross section. While other studies look at time series or cross section, very few directly compare the two.
- We analyse risk and return of these two approaches across currencies, commodities, equities and fixed-income.
- Diversification benefits across styles and asset classes are substantial. Both the time series and cross sectional portfolios can generate attractive risk adjusted returns.
- Some styles work better in time series than in cross section, and vice versa. We investigate the differences in performance between time series and cross sectional trading for each of the strategies, and attempt to explain how and why these differences arise.
- We find that momentum works better in time series and value in cross section. Carry performs equally well in both. We conjecture this is because momentum tends to capture better the ‘global’ factor while value tends to capture the information coming from a wider range of other factors.