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Market Models & Metrics

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The Death of Momentum

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Contents & Summary

Recent years have brought structural and institutional change to securities markets. New systems, new securities, and new participants imply new price behaviors. This paper describes one aspect of market behavior change—a shift from trendy to reversionary pricing—and considers its effect on strategy.

- **Runs Analysis** In trendy markets, up-days cluster and down-days cluster in consecutive "runs." Analyzing runs can show trendiness changes over time. In recent years, major market indexes now *de*-cluster, having turned *un*-trendy.
- **Momentum & Strategy** Many strategies include a momentum component. Momentum strategies depend on trendiness. Today's un-trendy markets are unproductive for momentum strategy.
- **Price Reversion** Another measure, more robust than runs analysis, indicates the prevalence of price reversion or extension in a price series. As with runs, today's reversion behavior is unfavorable to momentum strategy.
- **Sector Quest** With broad markets un-trendy and reversion-prone, analysis turns to sectors and stocks. Only three of nineteen prominent ETFs show consistent trendiness. Three trendiest tech stocks avoid reversion and favor momentum.
- **Conclusion** Markets are now un-trendy on average. Strategies with momentum component should seek and test for trendiness in narrower niches and individual issues.