Factor Performance – A Dissection by Leutold Group

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Retirement SIG February 13, 2025

What are Core Factors?

➢Factors are investment styles or drivers that have historically outperformed the equity universe over multiple cycles
   ➢May be used singly or in combination via ETFs, or SMAs
      ➢Where an Active Manager searches for stock attributes
   ➢Remember Larry Swedroe presentations

➢Typically relate to main drivers of stock performance
   ➢Momentum
   ➢Quality
   ➢Low Volatility
   ➢Equal weight
   ➢Value

What are Secondary Factors?

➢Secondary factors have less influence than Core

➢They typically relate to secondary drivers of stock performance
  - ➢Growth
  - ➢Minimum Volatility
  - ➢High Dividend
  - ➢High Beta
  - ➢Small Cap
  - ➢Dividend Aristocrats

Factor Performance 2024

	2024	vs. S&P 500	vs. S&P 500 EW	2023	vs. S&P 500	vs. S&P 500 EW	Related ETF
S&P 500	**25.0%**			**26.3%**			IVV
Core Factors							
S&P 500 Momentum	46.0%	21.0%	33.0%	17.8%	-8.5%	3.9%	SPMO
S&P 500 Quality	25.7%	0.7%	12.7%	25.0%	-1.3%	11.1%	SPHQ
S&P 500 Low Volatility	14.3%	-10.8%	1.2%	0.7%	-25.6%	-13.2%	SPLV
S&P 500 Equal Weight	13.0%	-12.0%		13.9%	-12.4%		RSP
S&P 500 Value	12.3%	-12.7%	-0.7%	22.2%	-4.1%	8.4%	IVE
Secondary Factors							
S&P 500 Growth	36.1%	11.1%	23.1%	30.0%	3.7%	16.2%	IVW
S&P 500 Minimum Volatility	18.9%	-6.1%	5.9%	18.9%	-7.3%	5.1%	SPMV
S&P 500 High Dividend	15.3%	-9.7%	2.3%	3.9%	-22.4%	-10.0%	SPYD
S&P 500 High Beta Index	8.7%	-16.3%	-4.3%	33.6%	7.3%	19.7%	SPHB
S&P Small Cap 600	8.7%	-16.3%	-4.3%	16.1%	-10.2%	2.2%	SPSM
S&P 500 Dividend Aristocrats	7.1%	-17.9%	-5.9%	8.4%	-17.8%	-5.4%	NOBL
Average	*18.7%*	*-6.3%*	*6.3%*	*17.3%*	*-9.0%*	*3.8%*	

Factor Performance 1994-24

	CAGR 1994 to 2024	vs. S&P 500
S&P 500 Quality	13.7%	2.8%
S&P 500 Momentum	12.8%	1.9%
S&P 500 Growth	11.7%	0.8%
S&P 500 Dividend Aristocrats	11.6%	0.7%
S&P 500 Equal Weight	11.3%	0.4%
S&P 500	**10.9%**	
S&P Small Cap 600	10.7%	-0.2%
S&P 500 Low Volatility	10.7%	-0.3%
S&P 500 High Dividend	10.5%	-0.4%
S&P 500 Minimum Volatility	10.4%	-0.5%
S&P 500 Value	9.6%	-1.3%
S&P 500 High Beta	8.8%	-2.1%

Is 2024's Action Confirmed Historically?

➢ Last year's market action may be summarized:

 ➢ *Market returns were extremely narrow with only 29% of the S&P500 constituents outperforming the index*

 ➢ *Growth stocks did most of the heavy lifting, the spread between Growth & Value landed in the 97th percentile of historical T12 results*

 ➢ *The S&P 500's return of 25% was high in the absolute, ranking in the 80th percentile of T12 returns since 1989*

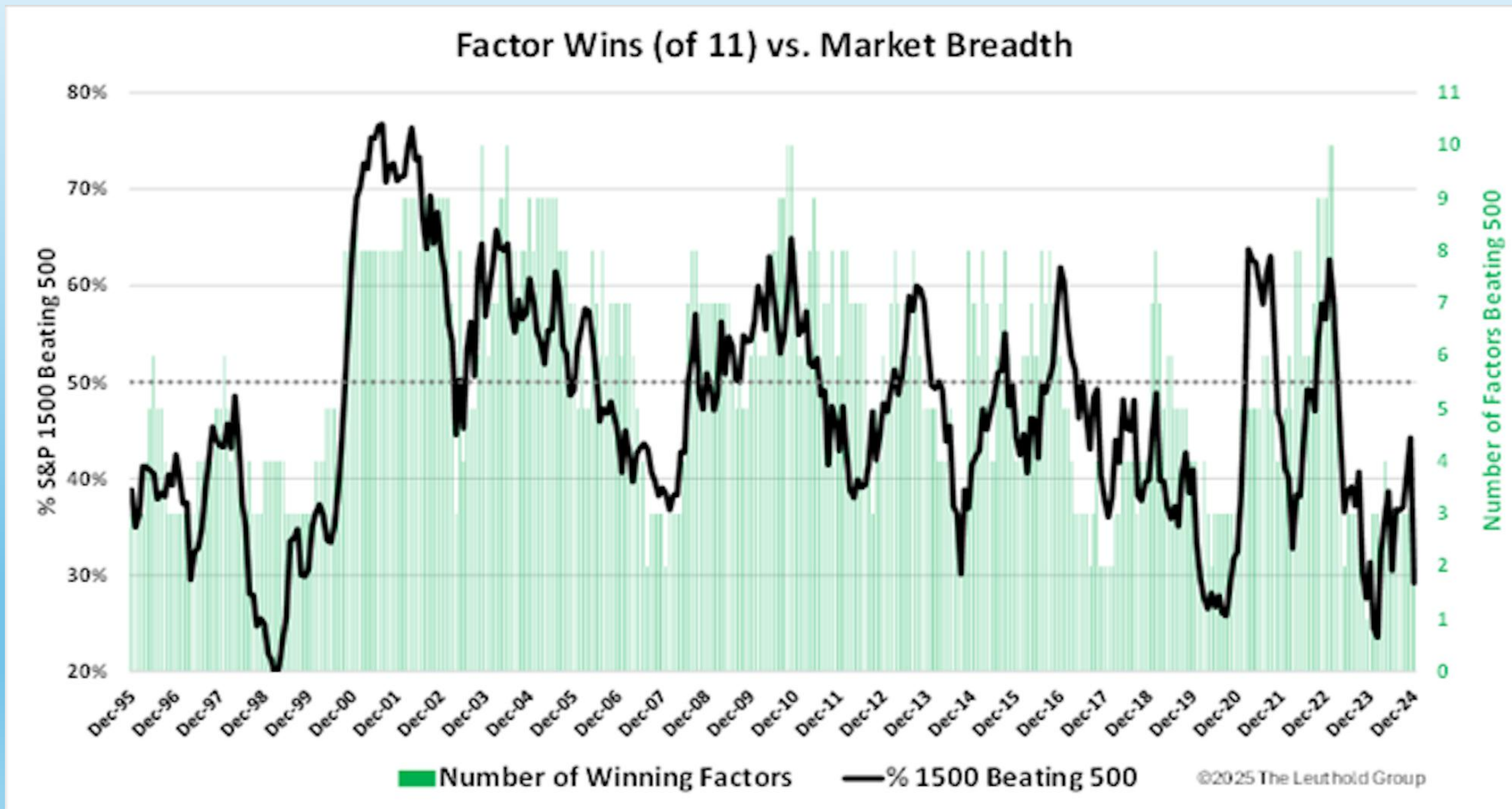# The Influence of MegaCap @ 12/24

Table 3: AI In The S&P 500

	Average Weight	Return	Contribution to Index
Nvidia	5.7%	171%	5.60%
Apple	6.7%	31%	1.84%
Amazon	3.7%	44%	1.49%
Meta	2.4%	66%	1.37%
Alphabet	3.9%	36%	1.27%
Broadcom	1.5%	110%	1.23%
Microsoft	6.9%	13%	1.03%
Tesla	1.4%	63%	0.68%
AI 8	**32.1%**	**45%**	**14.5%**
S&P 500	**100%**	**25%**	

Core & Secondary Factors in 2024

Table 4: 2024 Results

	A AI 8 Weight	B AI 8 Contribution vs. S&P 500	C Factor Total Relative to S&P 500	D AI 8 % of Total Spread
Core Factors				
S&P 500 Momentum	41%	13.2%	21.0%	63%
S&P 500 Quality	21%	3.5%	0.7%	521%
S&P 500 Low Volatility	0%	-7.4%	-10.8%	69%
S&P 500 Equal Weight	2%	-6.7%	-12.0%	56%
S&P 500 Value	1%	-7.8%	-12.7%	61%
Secondary Factors				
S&P 500 Growth	57%	6.9%	11.1%	63%
S&P 500 Minimum Volatility	13%	-4.0%	-6.1%	65%
S&P 500 High Dividend	0%	-7.5%	-9.7%	77%
S&P 500 High Beta Index	8%	-3.3%	-16.3%	20%
S&P Small Cap 600	0%	-7.0%	-16.3%	43%
S&P 500 Dividend Aristocrats	0%	-7.3%	-17.9%	41%

Factor Wins vs Market Breadth

Factor Wins (of 11) vs. Market Breadth

Factor Wins of Style

Factor Wins (of 11) vs. Style

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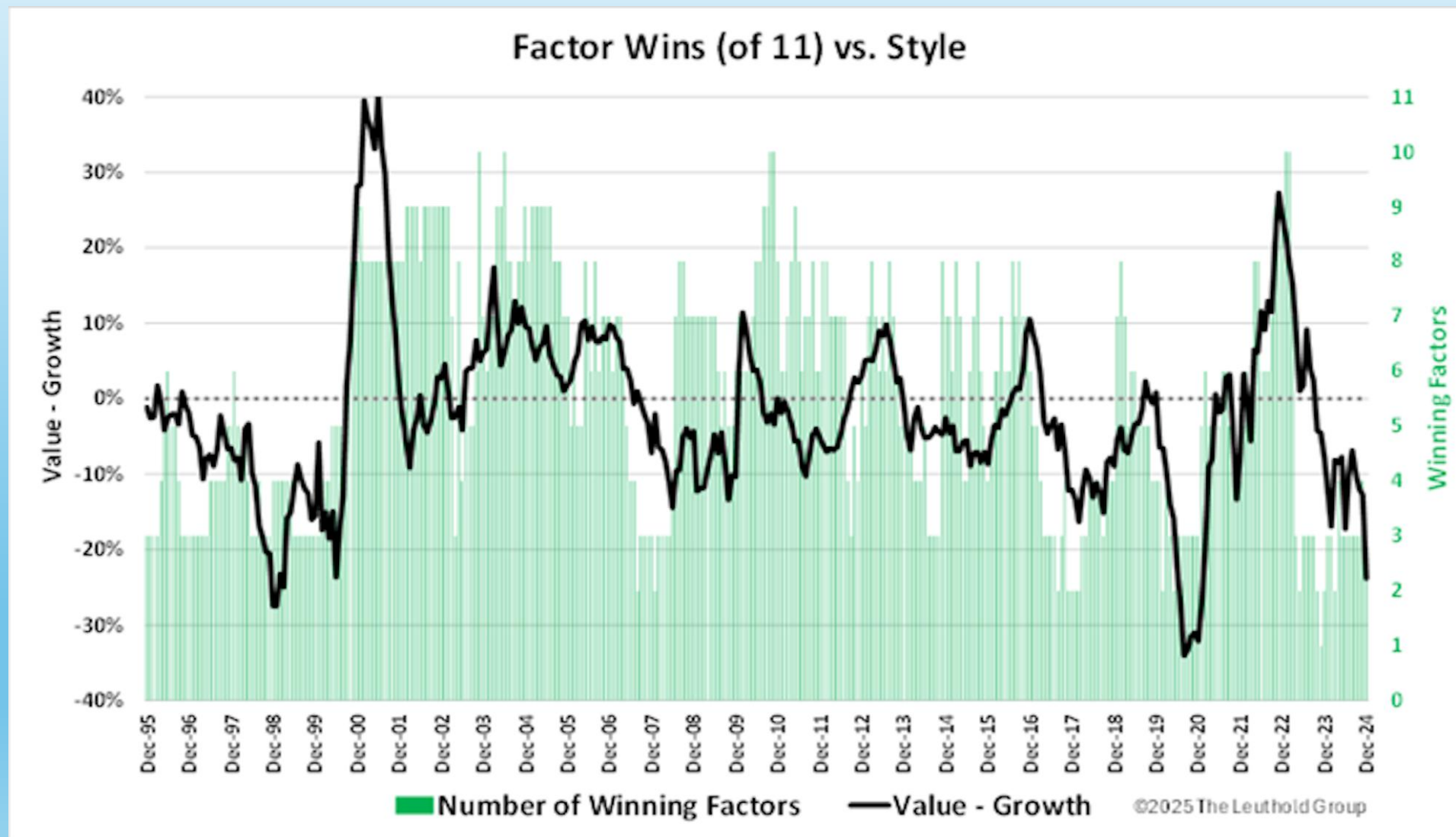
Spreads to Market Return Quartile

	Factor Win % by Market Return Quartile				Spread
	Best	Q2	Q3	Worst	Q4-Q1
Low Volatility	5%	26%	53%	89%	84%
Minimum Volatility	9%	30%	66%	83%	74%
Dividend Aristocrats	28%	33%	61%	85%	57%
High Dividend	35%	35%	56%	61%	25%
High Quality	60%	51%	71%	83%	23%
Equal Weight	41%	42%	53%	57%	16%
Small Cap	42%	43%	54%	58%	16%
Value	27%	33%	47%	38%	11%
Momentum	59%	55%	63%	61%	2%
Growth	72%	66%	53%	61%	-11%
High Beta	66%	62%	34%	8%	-58%

Portfolio Positioning in 2025

➢ Investors believing that current market concentration will persist should target Momentum, Growth, and Quality factors as likely winners in a market with high returns & narrow leadership of LCG stocks

  ➢ Momentum has the risk of lagging a shift in market sentiment so investors should remain alert to eventual shifts in market strength that may be out of sync with the fund's ability to rebalance & capture new trends

➢ Investors who believe the AI mania has run too far & looking to either diversify their LCG holdings or defend against a market reversal could expect more factors to outperform shifts

  ➢ A Minimum Volatility, Dividend Aristocrats, Equal Weight combo represent a strong, diversified approach to defending against either a broadening market or a 10% selloff

  ➢ Again, Momentum is at risk of being caught off guard during the first part of this move

➢ Investors on the fence can build a balanced factor portfolio consisting of Momentum, Quality, Minimum Volatility & Equal Weight to hold up well

  ➢ Factor investing can adapt to market conditions, giving investors alternatives that hold out hopes for strong relative performance in any scenario

QUESTIONS & CONCERNS