
FACTOR INVESTING AS AN EDGE

Jeremy Schwartz – Global Chief Investment Officer
02/05/2019

On last week's "Behind the Markets" podcast, Jeremy Schwartz and Liqian Ren spoke with John Davi, founder and CIO of Astoria Portfolio Advisors, an investment advisor focused solely on exchange-traded funds (ETFs). After working in equity derivatives research at Merrill Lynch and the institutional ETF desk at Morgan Stanley, Davi started Astoria to provide investment advice to family offices and other wealth management clients. As of January 2019, Astoria manages approximately \$150 million in client assets.

Astoria's Edge

Davi believes Astoria's edge is in using [factor](#) tilts to get risk-adjusted returns that are higher than if the investor simply owns the market. While Astoria's investment process focuses on a combination of macroeconomic and quantitative factors, Davi believes that factor investing can be used to achieve greater risk-adjusted returns. He believes 2018 was a good example of this, when factors like [quality](#) and [low volatility](#) started to shine. Additionally, he believes alternatives (such as [merger arbitrage](#)) can be powerful tools in asset allocation because they allow you to generate returns that are uncorrelated with traditional stocks and bonds.

2019 Outlook

After a skeptical view of the market in 2018, Astoria is more constructive this year. Based on his views of current financial conditions and liquidity, Davi favors the U.S. and emerging markets versus Europe and Japan. This is primarily a function of valuations, economic data and global leadership of U.S. technology and health care companies. Along with a number of other experts, he subscribes to the view that 2018 was about rolling [bear markets](#): first in bitcoin and volatility ETFs, emerging markets during the midyear, then the U.S. starting in September.

Next, the discussion turned to the bond market. Astoria believes that cash is attractively priced relative to longer-[duration](#) fixed income. Also, it remains constructive on municipal bond-financed projects, such as airports. Based on Davi's views of where we are in the cycle, he'd prefer not to own high-yield bonds, although he does believe a quality approach can add value. While the market is currently anticipating no additional [Federal Reserve \(Fed\) rate hikes](#) this year, Davi believes this is not ideal. He believes that the Fed should continue to tighten in order to get further away from zero to preserve policy flexibility during the next recession.

Finally, Davi likes the idea of commodities in a portfolio because of their low [correlation](#) with stocks and bonds. However, they need to be tactically traded. In the current environment, gold has been an attractive option given its ability to dampen volatility like we saw in the fourth quarter of 2018. In Davi's view, lowering [beta](#) to the equity market remains a key theme for 2019.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. You cannot invest directly in an index.

DEFINITIONS

Factor: Attributes that based on its fundamentals or share price behavior, are associated with higher return.

Quality: Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over time.

Low volatility: Characterized by lower standard deviation of price over time. This term is also associated with the Low Volatility Factor, which associates lower volatility stocks with better risk-adjusted returns vs the market over time.

Merger Arbitrage: An event-driven investment strategy that involves exploiting pricing inefficiencies that exist between markets for the same security after a company merger or acquisition, in order to generate a profit.

Bear market: A sustained downturn in market prices, increasing the chances of negative portfolio returns.

Duration: A measure of a bond's sensitivity to changes in interest rates. The weighted average accounts for the various durations of the bonds purchased as well as the proportion of the total government bond portfolio that they make up.

Federal Reserve: The Federal Reserve System is the central banking system of the United States.

Rate Hike: refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Correlation: Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.

Beta: A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.