

# You're a Factor Investor,

and You Didn't Even Know It

Many investors choose stocks based on the "factors," or characteristics, that help explain investment performance. They aim for:



**1**  
Lower risk



**2**  
More diversification



**3**  
Higher returns



While you may not have actively incorporated factor investing in your portfolio, you probably practice its underlying concepts in real life.

## Factors in Day-to-day Life

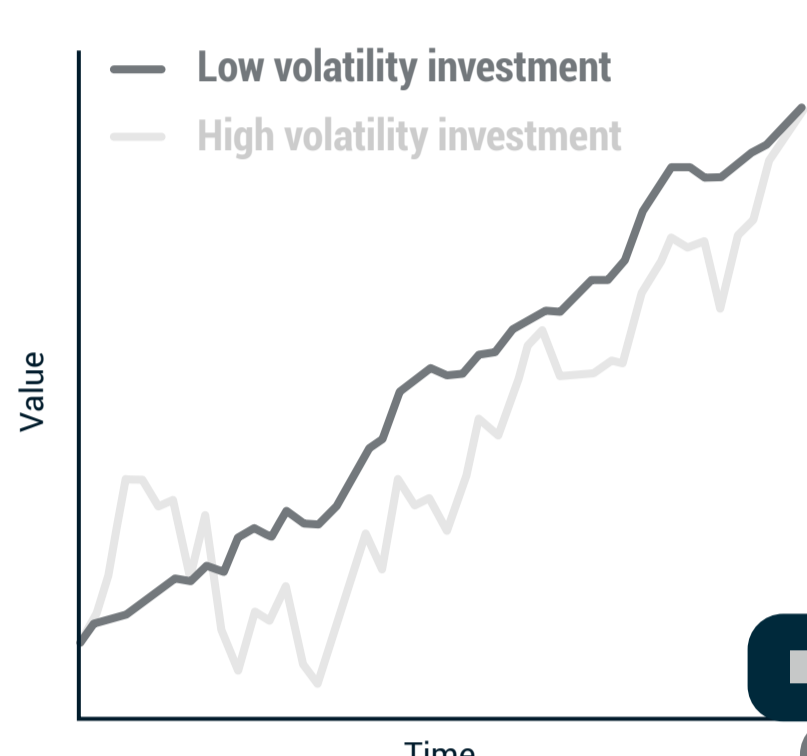
Here are five common factors, and scenarios where you likely experience their principles in your own life.



### Low Volatility

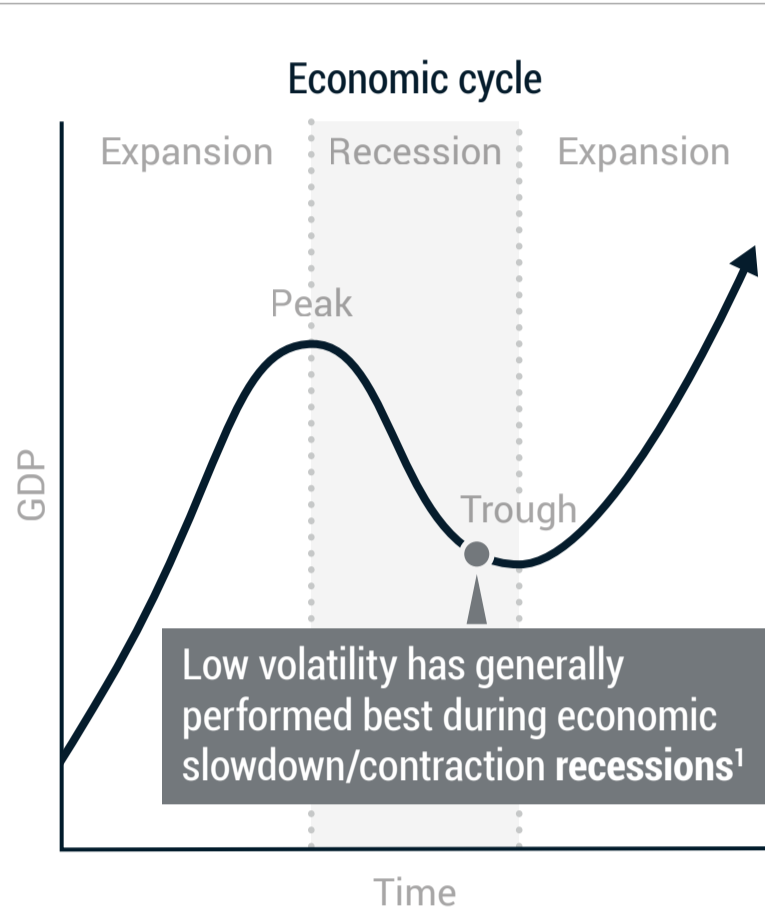
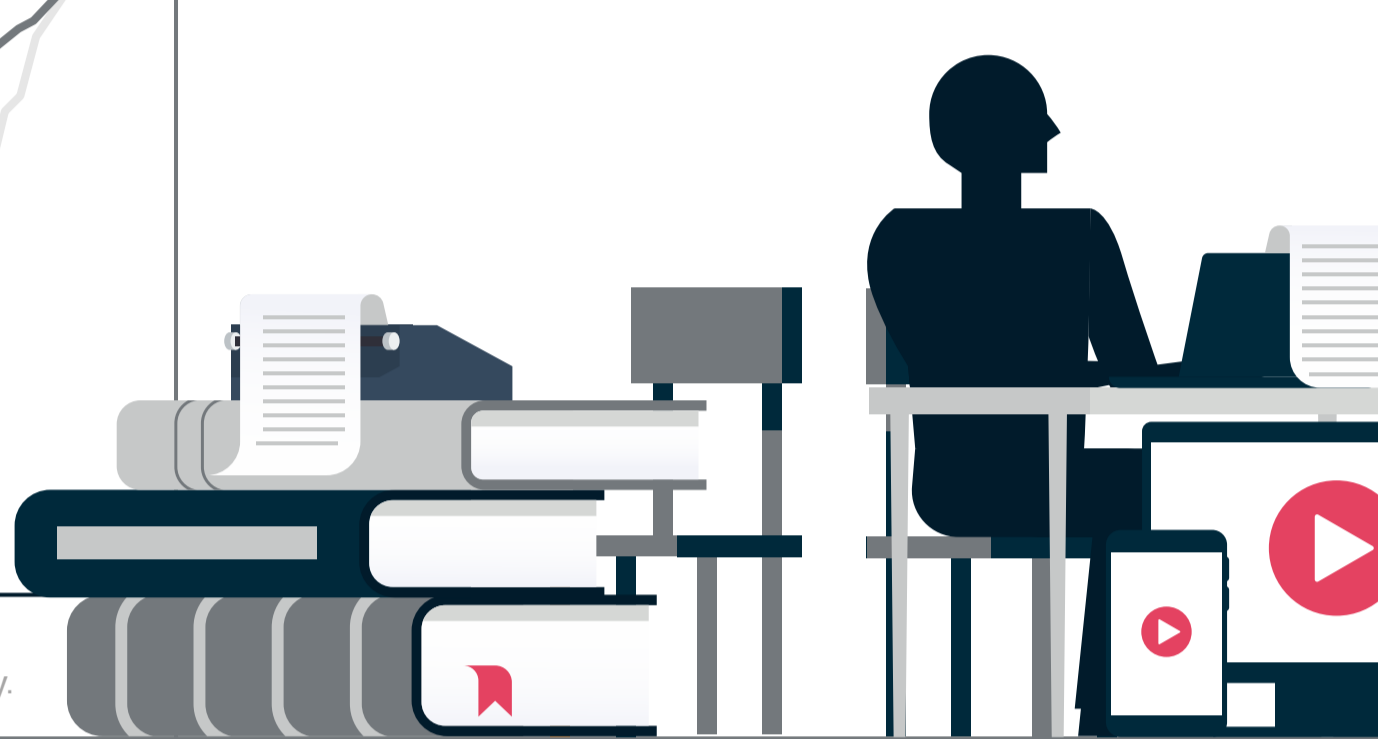
#### What is it?

The low volatility factor attempts to capture excess returns to stocks with lower than average risk.



#### How you may experience it

If you want a writing career with relatively reliable income, you'll likely choose to be a marketer at a large company rather than a self-employed author.



### Quality

#### What is it?

The quality factor attempts to capture excess returns to stocks that are characterized by low debt, stable earnings growth and other "quality" metrics.

#### Low quality

Debt level: High

Earnings growth: Wide fluctuations

#### High quality

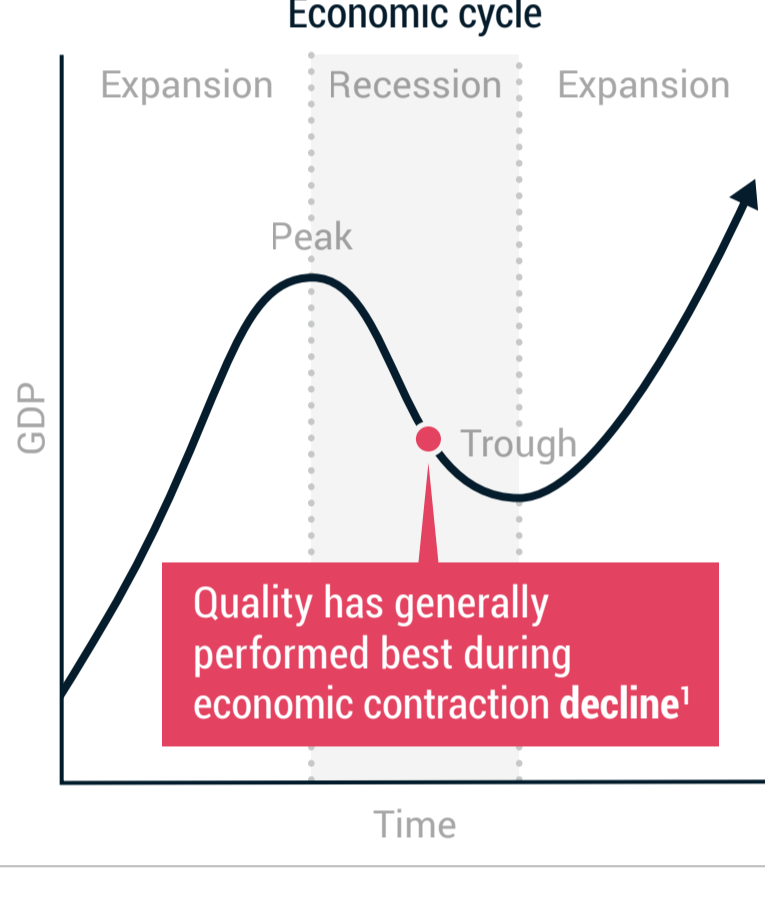
Debt level: Low

Earnings growth: Steadily increasing

#### How you may experience it

When you're purchasing new tires for your car, you might consider the following characteristics:

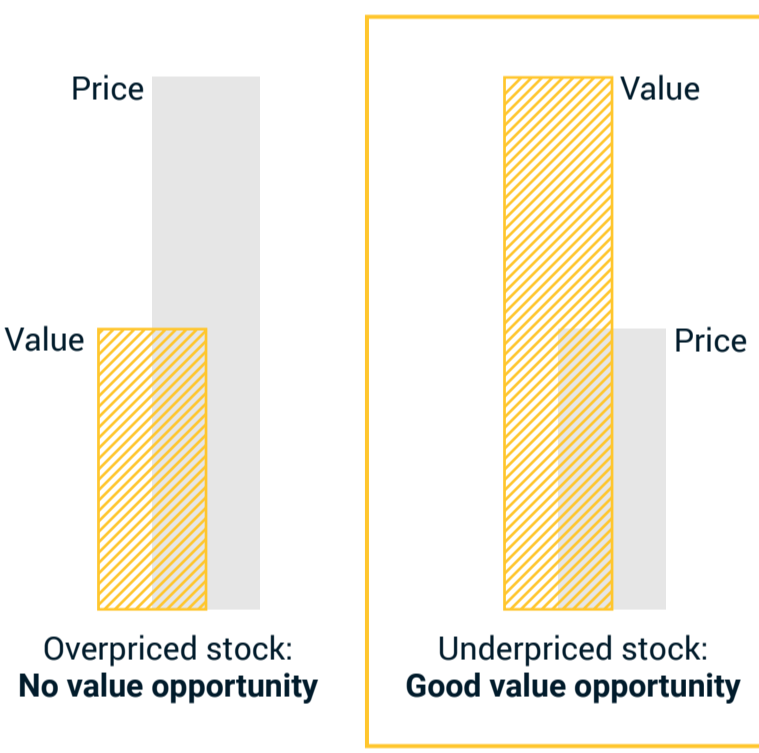
	Tire A	Tire B
Tread longevity	★ ★ ★	★ ★ ★
Warranty	★ ★ ★	★ ★ ★
Safety ratings	★ ★ ★	★ ★ ★
Traction	★ ★ ★	★ ★ ★
Fuel economy	★ ★ ★	★ ★ ★
Noise level	★ ★ ★	★ ★ ★



### Value

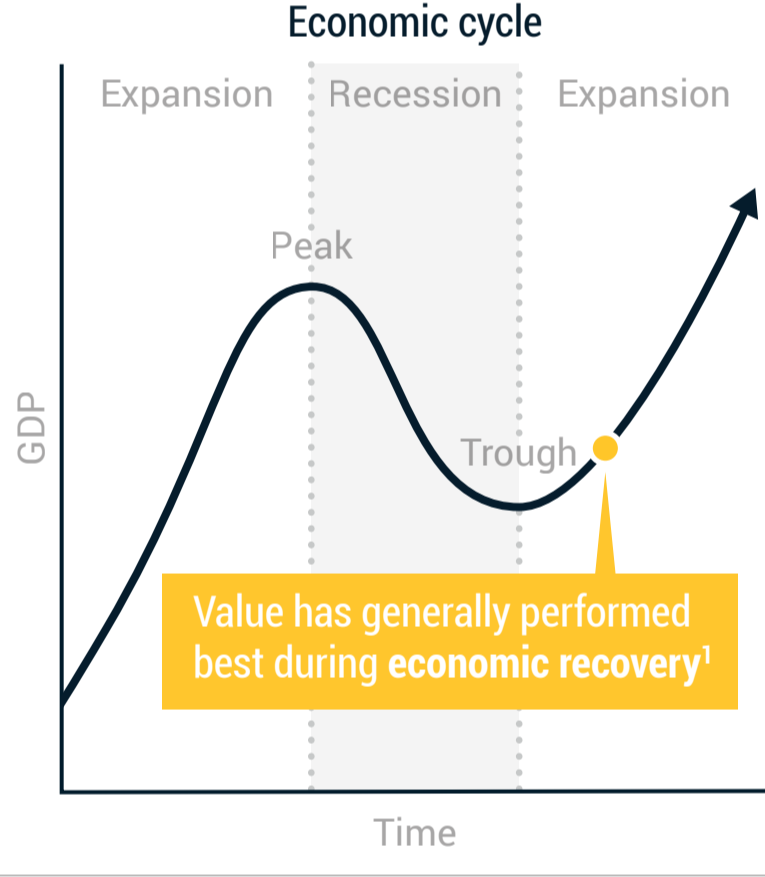
#### What is it?

The value factor attempts to capture excess returns to stocks that have low prices relative to their fundamental value.



#### How you may experience it

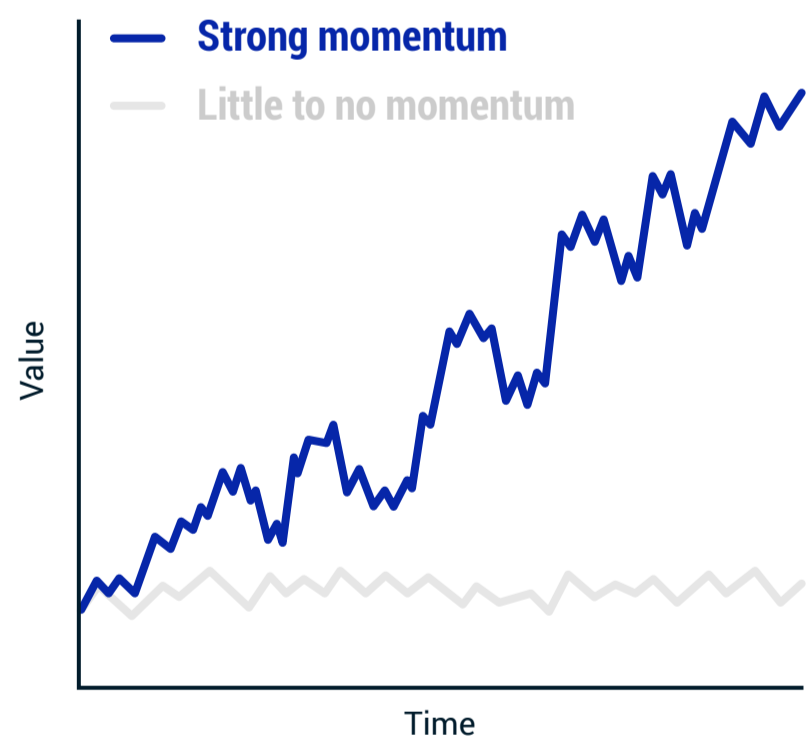
If you want to get a good deal, you may look for items that are on sale.



### Momentum

#### What is it?

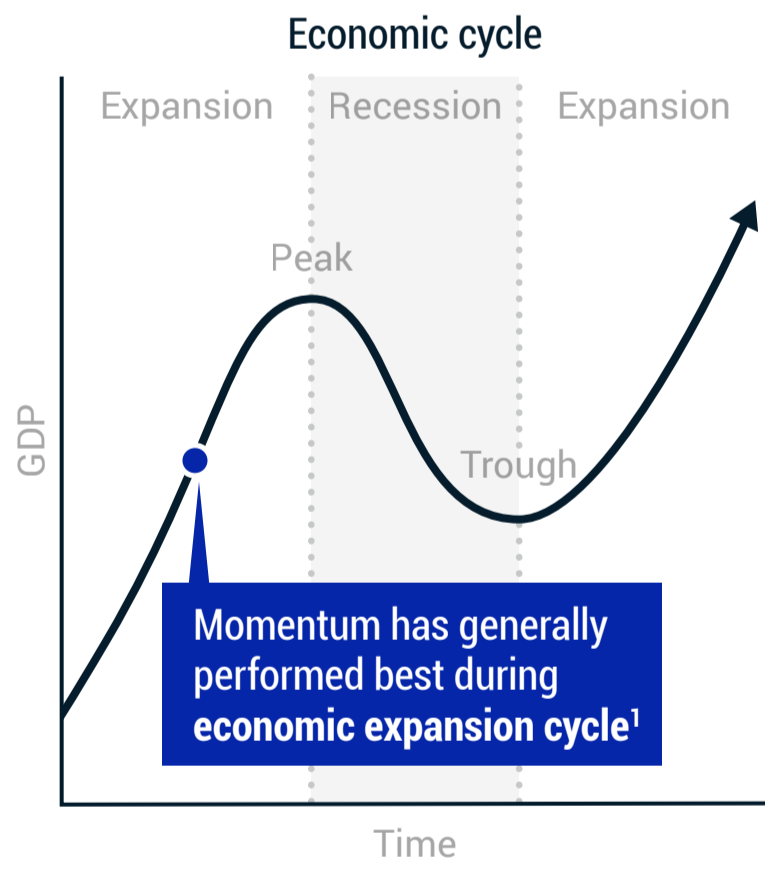
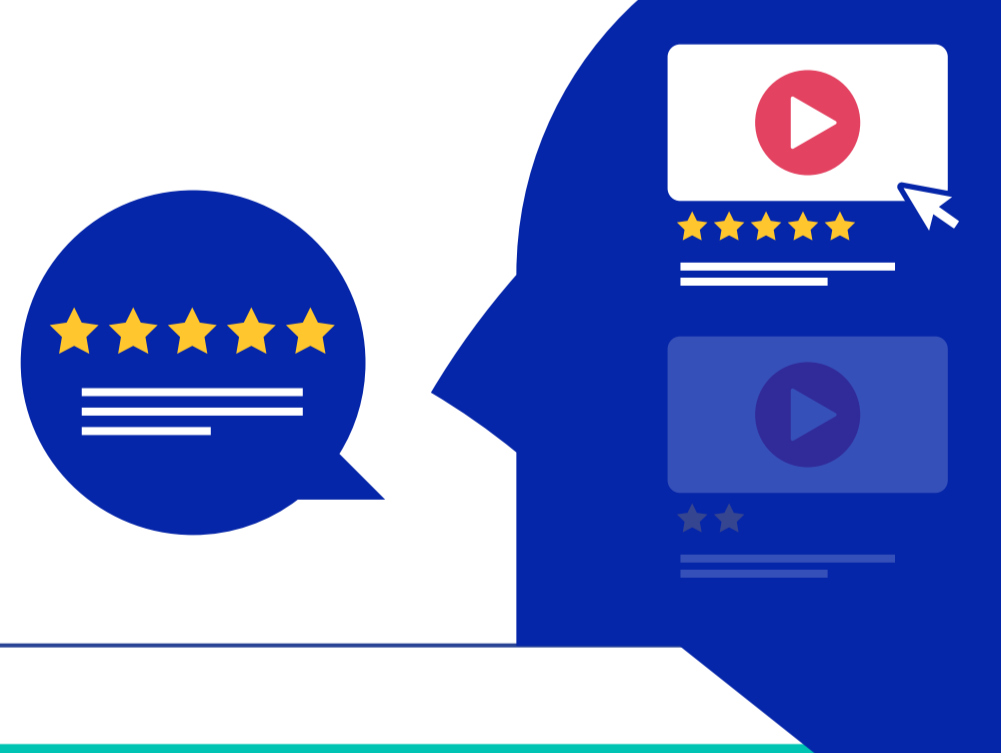
The momentum factor attempts to capture excess returns to stocks with stronger past performance.



#### How you may experience it

When you're deciding what to watch, you may choose a TV show that has high audience ratings.

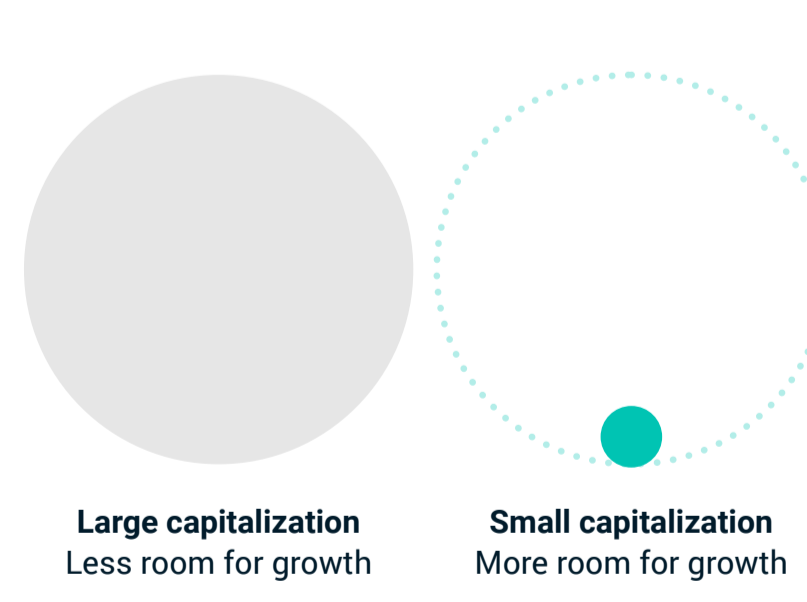
You'll likely also recommend it to your friends, which further boosts viewer



### Low Size

#### What is it?

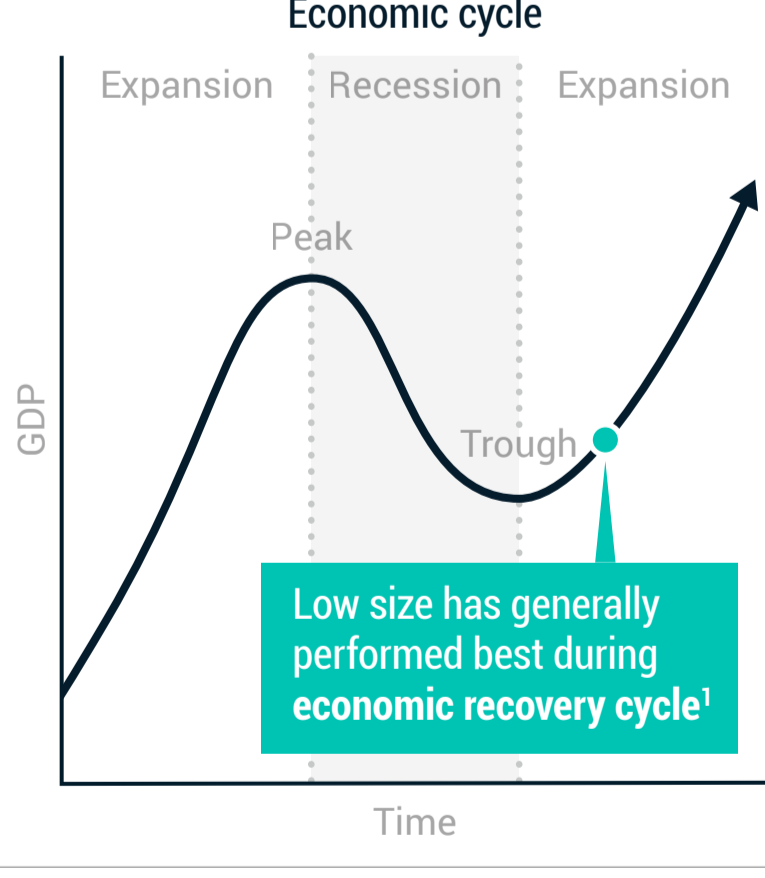
The low size factor attempts to capture excess returns of smaller firms (by market capitalization) relative to their larger counterparts.



#### How you may experience it

When you're increasing in your skill level, you'll see larger increases in your skill level than a professional athlete will.

SKILL LEVEL	
Week	1 2 3 4 5 6 7 8
BEGINNER	1 2 2 3 4 4 5 5
PROFESSIONAL	7 7 7 8 8 8 8 9



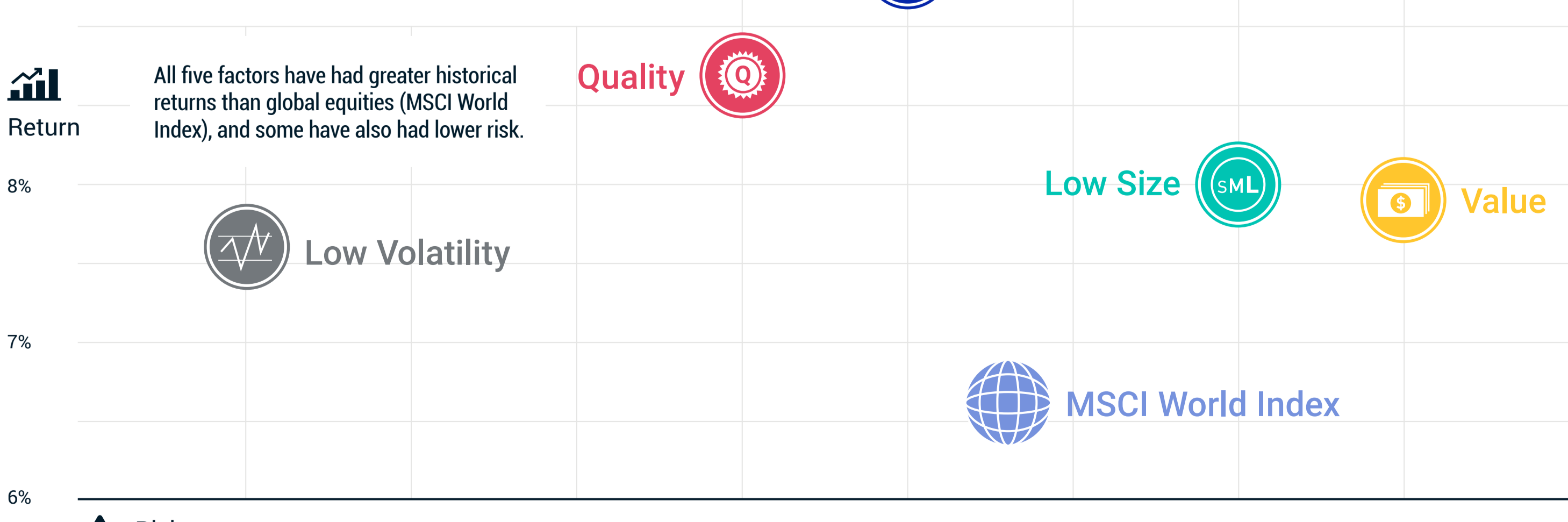
## Understanding Your Investments

These simple concepts are at work in your everyday life and in your investments.

Targeting factors can help you work toward your investing goals, including maximizing return potential and managing risk.

### Long-Term Factor Performance

From 2000 to 2020



Past performance is no guarantee of future results. Annualized risk and gross return in USD from Dec. 29, 2000, to Dec. 31, 2020 for MSCI World Factor Indexes. \*Source: MSCI, "Factors in Focus: Val-come Back! Shifting Factors as the Cycle Turns" (Jan 2021). Based on average monthly active returns from December 31, 1998, to December 31, 2020.

With factor investing, you can better understand what drives your portfolio's performance.