Human Biases-Backed Investment Style

Hérens Quality Asset Management
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Historical snapshot

Buy high, sell higher – this is the main mantra of momentum stocks, though it may not be obvious to investors who remember the decade following the dot-com bubble. At first glance, it seems counterintuitive to buy a stock which has already grown substantially? How sustainable is this momentum? On the other hand, is it truly more comfortable to try catching a falling knife by opening a position after a price decline? How confident can one be that such a drop is not the start of a downtrend, or that the long-term compounding trend of a multi-year winner has not been broken?

Historical performance across major investment styles—not only classical value and growth, but also momentum—shows strong evidence that momentum has consistently been one of the best-performing strategies over the course of decades.

1930s	1940s	1950s	1960s	1970s	1980s	1990s	2000s	2010s
Momentum 6.5%	Value 18.9%	Momentum 24.3%	Momentum 17.1%	Value 13.8%	Low-Volatility 22.4%	Momentum 23.6%	Value 7.3%	Momentum 14.3%
Low-Volatility 5.0%	Momentum 17.1%	Value 21.4%	Quality 14.3%	Momentum 12.9%	Value 21.1%	Market 18.0%	Low-Volatility 6.5%	Low-Volatility 14.2%
Small-Caps 4.5%	Small-Caps 15.7%	Small-Caps 18.9%	Small-Caps 13.3%	Small-Caps 10.4%	Momentum 20.9%	Quality 17.8%	Quality 6.5%	Market 13.6%
Market -0.2%	Low-Volatility 11.5%	Low-Volatility 18.5%	Value 13.3%	Quality 10.0%	Quality 18.9%	Value 16.3%	Small-Caps 6.4%	Quality 13.0%
Value -1.0%	Market 9.5%	Market 18.3%	Low-Volatility 10.3%	Low-Volatility 9.5%	Small-Caps 17.2%	Low-Volatility 14.6%	Momentum 4.1%	Small-Caps 12.1%
			Market 8.3%	Market 6.1%	Market 16.8%	Small-Caps 14.5%	Market -0.4%	Value 11.0%

Figure 1. Style performance by decades

Source: Data library of Professor Kenneth French, Robeco[1]

In the 2020s, momentum has continued to rank among the best-performing investment styles across regional markets, along with growth in the U.S., value in Europe and Japan. This development aligns with our earlier view that global trends are becoming more important to investors than the traditional financial status quo (see Insight).

3Y	Market	Momentum	Quality	Value	Growth
USA	19.1%	19.6%	21.3%	11.9%	26.0%
Europe	12.6%	17.8%	7.1%	17.1%	8.2%
Japan	15.9%	20.1%	12.1%	20.9%	11.0%

Europe in EUR, Japan/USA in USD

YTD	Market	Momentum	Quality	Value	Growth
USA	10.6%	13.0%	7.8%	9.5%	11.7%
Europe	10.6%	17.7%	1.4%	18.7%	2.9%
Japan	17.8%	19.1%	12.1%	22.8%	12.8%

Figure 2. MSCI factor indices performance, local, net TR, as of 31.08.2025

Source: Hérens Quality AM, MSCI

A bunch of biases

Several factors underpin momentum's strong performance: investor herding behavior and other cognitive biases, the rise of passive investing, and the democratization of markets. Investing has become significantly more accessible, driven by lower trading fees, abundant information, and widespread availability of investing platforms. Combined with overall wealth growth, these trends have fueled substantial inflows from private investors. This dynamic is expected to persist, supporting long-term market growth (see Fig. 3).

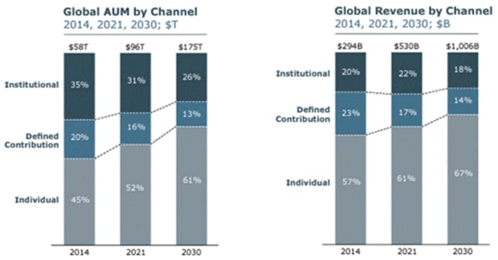

Figure 3. Global AUM by Investor type

Source: Indefi GROM, Indefi analysis, Simfund

The consequences are clearly visible: meme stocks, heightened volatility, and the popularity of thematic investing (e.g., EVs, cannabis, nuclear energy). Naturally, these forces reinforce the outperformance of momentum-style strategies. Research further shows that private individuals often spend only a few minutes researching companies, with price charts serving as the primary basis for their investment decisions[2].

Private investors, even more than professional ones, are highly susceptible to behavioral biases. These include conservatism bias, representativeness bias, and emotional biases such as loss aversion, overconfidence, and self-attribution[3]. Emotional behavior—driven by FOMO, fear, greed, and herding tendencies—continues to exert a strong influence on financial markets.

Passive Investing

Passive investing, primarily through index trackers, has become a powerful market force. By design, these strategies are effectively momentum-driven: market-cap weighting channels additional inflows into companies that have already performed well, amplifying their growth and creating a self-reinforcing cycle. This dynamic particularly favors large-cap stocks.

However, such tendencies carry risks. When stock prices diverge too far from fair value, companies can end up with unjustifiably high valuations. An economic downturn could break this cycle, leading momentum strategies to underperform.

Quality+Momentum – best combo?

Momentum can reverse sharply, and this is where combining it with Quality may provide a cushion during substantial drawdowns. Historically, Quality companies have shown more resilience in downturns, supported by strong balance sheets, sound governance, and pricing power.

An analysis of momentum-style constituents reveals that their indebtedness is generally higher than the market average. While profitability and margins are broadly in line with the market, momentum companies lag Quality firms on nearly all financial metrics. That said, momentum firms do deliver growth rates comparable to Quality companies, and both styles outpace the broader market.

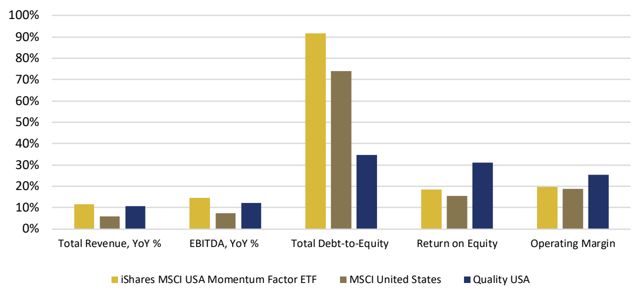

Figure 4. Fundamental characteristic of Momentum vs. Quality vs. Market

Source: Hérens Quality AM, Reuters

Recently, momentum exposure has been skewed toward defense and banking stocks—sectors with weaker balance sheets and, in the case of defense, relatively limited earnings power.

This underscores the importance of quality factors, especially given the weaker fundamentals of many momentum stocks. Strong financial characteristics are crucial in times of economic slowdown or reduced government support—both of which have been key tailwinds in recent periods for moemntum stocks. Moreover, momentum investing inherently involves high turnover. Applying a Quality lens can help moderate this turnover, reducing trading costs that otherwise erode performance.

References

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2. Huang, Jinsui & Zhang, Peiying & Zhang, Junbin. (2023). Understanding Momentum and Reversal Investing Strategies. Journal of Economics, Finance and Accounting Studies. 5. 106-112.
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