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# Momentum × Discipline
## The Persistent Edge

***Why Trend Persistence Is the Most Durable Anomaly in Finance — and How Disciplined Systems, Not Instinct, Turn It Into Returns***

A rigorous examination of momentum as an investable phenomenon: how to measure it, why it persists, where it breaks, and how a long-horizon house integrates trend into a framework built for capital preservation rather than churn.

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CORE THESIS

***Momentum is not speculation. It is the market's memory made investable.***

“Prices carry information about themselves. Trends persist because human beings absorb news slowly, sell winners too early, and crowd into what is already working. The edge is not in predicting the trend — it is in following it with more discipline than everyone else.”

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EXECUTIVE SUMMARY

# Executive Summary


*Momentum is the closest thing modern finance has to a free lunch — and the fastest way to poison it is to treat it as a licence to trade rather than a discipline to engineer.*

Across roughly two centuries of data — equities, bonds, currencies, commodities — one pattern recurs with a stubbornness that embarrasses the efficient-market view: assets that have outperformed keep outperforming, and laggards keep lagging, over horizons of three to twelve months. This is momentum, the most documented and most out-of-sample-validated anomaly in finance.

Yet most investors who reach for it lose money — not because the effect is illusory, but because the raw signal is fragile exactly where it matters. Momentum grinds out gains for years, then surrenders a third to a half of them in violent reversals, almost always as the market turns off a bottom. The return belongs to whoever manages that tail, not to whoever spots the trend.

This paper treats momentum as a serious house should: a systematic, rules-based discipline whose value is unlocked by construction and risk control, not by conviction or timing. The conclusion is not that a patient investor should abandon patience to chase trends. It is that trend, correctly instrumented, is itself a form of discipline — and one of the few edges that has survived being discovered.

# The Anomaly That Should Not Exist

*If markets were efficient, momentum could not exist. It exists anyway — everywhere, persistently, and for reasons rooted less in economics than in human nature.*

### *I.i A Pattern Too Robust to Ignore*

Finance spent decades arguing that past prices tell you nothing about future prices. Momentum is the counterexample that refused to disappear. Formalised for equities in the early 1990s — though already visible in the data for over a century — it has since been found in nearly every liquid asset class and major market studied. Winners keep winning, losers keep losing, over an intermediate horizon of roughly three to twelve months.

What makes it unusual is not that it was discovered but that it survived discovery. Most anomalies decay to nothing once published and arbitraged. Momentum has thinned but not vanished — and that durability is itself a clue that the edge is anchored in something structural about how humans process information, not a data-mining artefact.

### *I.ii Two Faces: Cross-Sectional and Time-Series*

Momentum comes in two forms, and conflating them is costly. *Cross-sectional* momentum ranks a universe against itself and bets relative winners beat relative losers — market-neutral in spirit, sector-relative in practice. *Time-series* (trend-following) momentum asks a simpler question of each asset alone: is it above or below its own recent trend? The first is relative strength; the second is absolute direction — and only the second lets a system step out of a falling market entirely, which matters enormously for capital preservation.

### *I.iii Why It Persists*

The most convincing explanations are behavioural. Investors underreact to news, anchoring to stale prices, so information bleeds into price over weeks rather than seconds. The disposition effect compounds this: people sell winners too early and hold losers too long, suppressing prices that deserve to rise and propping up ones that deserve to fall. Once a trend is visible, herding and career risk pull capital toward what already works. Risk-based explanations exist too — momentum may pay for bearing crash risk — but the practitioner's lesson is the same: it is powered by human frictions unlikely to be legislated away.

> *Momentum has been documented across roughly two hundred years of data and virtually every liquid asset class. An edge that survives being published, arbitraged, and taught is not a coincidence — it is a structural feature of how markets absorb information.*
>
> — The Anomaly

# Measuring Momentum

*The difference between a profitable momentum book and a random one is rarely the idea. It is the precision of the signal and the honesty of the ranking.*

### *II.i The Core Signal: Twelve Minus One*

The canonical measure is the trailing twelve-month return, skipping the most recent month — the "twelve-minus-one" lookback. The skip is not decoration: very short-term returns tend to mean-revert, so including the last month pollutes a continuation signal with a reversal one. Rank the universe on the return from twelve months ago to one month ago; favour the top decile, avoid or short the bottom. Decades old, still the backbone — because it is robust rather than optimal.

### *II.ii Ranking, Not Forecasting*

Momentum is a relative statement. The system does not ask "will this asset rise" — it ranks a coherent universe and bets winners keep beating losers over the next one to three months. This disciplines everything downstream: the universe must be chosen first and chosen well, so like is compared with like, and the output is a rank, not a price target. Converting momentum into a point forecast imports a precision the signal does not possess.

### *II.iii Refinements That Earn Their Keep*

- **Risk-adjusted momentum.** Divide trailing return by its own volatility — demoting lottery-ticket names that ran on one spike, promoting steadier climbers, with no new parameters to over-fit.
- **Path smoothness.** A stock that drifted up steadily beats one that gapped once and stalled. Consistency predicts continuation better than magnitude — a direct consequence of underreaction.
- **Residual momentum.** Strip out market and sector beta and rank on the idiosyncratic residual. This curbs piling into the hot sector and materially reduces the crash risk of Section III.

### *II.iv The Discipline of Restraint*

The temptation is to stack confirmation indicators until the signal feels certain. Resist it — most are redundant with the trailing return and add false precision, not edge. A minimal set is defensible: a long-term trend confirmation and a liquidity screen so positions can actually be entered and exited. Beyond that, complexity is usually over-fitting in the costume of rigour.

> *The twelve-minus-one lookback endures not because it is the best-performing window in any given backtest, but because it is the one least likely to be an accident. When a parameter only works after tuning, it has already stopped working.*
>
> — Signal Design

# The Crash Problem

*Momentum's dirty secret is that it does not fail gradually. It grinds out gains for years and then hands a large share back in a matter of weeks. Whoever survives the crash owns the strategy.*

### *III.i The Shape of the Risk*

A naive momentum book has a distinctive profile: long stretches of steady, almost boring outperformance, punctuated by rare and brutal reversals. These "momentum crashes" cluster in one setting — sharp rebounds off a market bottom, when the beaten-down losers the strategy is short or underweight rally most violently. 2009 and 2020 are textbook. The strategy was not wrong about the trend; it was carrying its largest, most concentrated exposure into the exact moment the trend snapped.

### *III.ii Volatility Scaling*

The single most valuable intervention is to scale exposure inversely to the strategy's own recent volatility: when realised volatility spikes — as it does before and during crashes — cut gross exposure; when it is calm, restore it. In the published research this one rule roughly doubles the strategy's Sharpe ratio, chiefly by shrinking the worst drawdowns. It is not a refinement; for most implementations it is the difference between a strategy worth running and one that is not.

### *III.iii Dynamic Hedging and the Loser Leg*

The crash risk lives in the loser leg after a large drawdown, when short or underweight high-beta positions become a liability. Trimming or hedging that exposure when the market has fallen sharply — the exact set-up for a reversal — removes much of the left tail. The cost is some upside when the trend continues cleanly: a trade a capital-preservation house makes willingly.

### *III.iv Risk Management Is the Strategy*

The uncomfortable conclusion: the signal is the easy part. Almost anyone can rank a universe on trailing returns. What separates a professional programme from a retail one is the risk architecture — volatility targeting, drawdown control, exposure management, and the humility to cut risk when the strategy feels most confident. In momentum, defence is not a constraint on the offence. It is the offence.

> *Momentum crashes off the bottom, when the losers rip and the winners stall. A programme that does not scale down its risk as its own volatility rises is not running a strategy — it is holding a lottery ticket with good manners.*
>
> — Risk First

# Building the System

*A backtest is gross, frictionless, and flattering. The portfolio you actually hold is net of turnover, tax, and slippage — and that gap is where most of the paper edge quietly disappears.*

### *IV.i Universe and Portfolio Construction*

Begin with a coherent, liquid universe so the ranking compares like with like — a broad developed-market index is a sound default. Hold the top twenty to fifty names, weighted equally or by inverse volatility; the latter stops a single name dominating the book and dovetails with the risk framework of Section III. The aim is not the one strongest trend but a diversified basket, so the edge expresses itself in aggregate rather than resting on any single position.

### *IV.ii Rebalancing and the Tyranny of Turnover*

Momentum decays, so the book must be refreshed — but every refresh costs money. Monthly rebalancing captures more signal and bleeds more in costs and short-term gains; quarterly captures slightly less and keeps far more after costs. The elegant compromise is a hysteresis band: sell a name only when it falls out of a wider threshold — say the top thirty percent — not the moment it leaves the top twenty. This cuts turnover substantially with little measured loss, and it matters more, not less, inside a taxable structure.

### *IV.iii The Costs That Backtests Hide*

- **Turnover and tax drag.** High turnover converts long-term positions into short-term gains and pays the spread repeatedly. After-tax, after-cost return is the only number that matters — always lower than the backtest promises.
- **Crowding.** Momentum is heavily arbitraged; the premium is real but thinner than 1990s studies imply, and crowded positioning can amplify the reversals of Section III.
- **Overfitting.** Curve-fitting the lookback or filter stack for a few in-sample basis points is self-deception. Robustness beats optimality out-of-sample, every time.

### *IV.iv Price Momentum Is Not Earnings Momentum*

Finally, keep the signals distinct. Price momentum — continuation of returns — is related to but separate from post-earnings-announcement drift, where prices keep moving in the direction of an earnings surprise. The latter is shorter-horizon and event-driven. Blending them without knowing which is doing the work is how a clean strategy becomes an unexplainable one.

> *The distance between a momentum backtest and a momentum account is measured in turnover, tax, and slippage. Design the system to minimise trading, not to maximise the equity curve on a screen.*
>
> — The Cost of Turnover

# Momentum × Conviction

*A house built on patience and permanence has no business chasing trends. It has every reason to instrument them.*

### *V.i Naming the Tension Honestly*

Momentum is, on its face, at odds with a long-horizon philosophy — higher-turnover than stewardship and shorter in its native horizon. Pretending otherwise would be dishonest. Run as a core allocation, it quietly converts a patient mandate into an active-trading one; the moment you want to make it the core, that is a signal your stated philosophy and your real risk appetite have drifted apart. The resolution is not to abandon either discipline, but to assign momentum its proper, bounded role.

### *V.ii Trend as Risk Discipline, Not Return Chase*

The most coherent use of momentum in a conviction-led house is defensive. Time-series trend is, at its core, a systematic rule for cutting exposure to assets in sustained decline — a pre-committed exit discipline that removes ego and hope from the decision. It answers the hardest question a fundamental investor faces: not what to buy, but when a thesis has stopped working and it is time to step aside. Used this way, trend does not compete with conviction; it protects it from the investor's own reluctance to sell.

### *V.iii The Integrated Position*

Signal without judgement is precise but blind to context; judgement without systematic discipline is conviction that cannot be checked or scaled. The integration is the point. Fundamental work selects the businesses worth owning for a decade; momentum, as a bounded overlay, governs sizing, times exits, and enforces the risk architecture that keeps a bad year from becoming a permanent impairment. It belongs in a satellite sleeve, not at the centre of gravity — a discipline that serves the mandate rather than redefining it.

> *Conviction over consensus, patient by design. Momentum earns its place in such a house only as a rule that governs risk and exits — never as a licence to abandon the horizon that defines the firm.*
>
> — Integrated Capital

# Conclusion

*Momentum is one of the few edges that has survived being discovered. Whether it survives contact with a given investor depends almost entirely on discipline.*

The evidence is overwhelming and old: prices trend because people absorb information slowly, sell winners too soon, and crowd into what already works. None of that is likely to change, which is why the premium persists after decades of scrutiny. But the same behavioural machinery that creates the effect punishes the undisciplined — through crashes that arrive without warning, turnover that erodes the edge one trade at a time, and over-fitting that turns a robust rule fragile.

The task, then, is not to discover momentum but to engineer around its weaknesses. Measure the signal honestly. Rank, don't forecast. Scale risk inversely to volatility. Hedge the loser leg into a rebound. Minimise turnover with bands and patience. Keep the strategy bounded and let it serve the mandate rather than consume it. Do these things and momentum becomes what it should be for a long-horizon house: not a bet against patience, but an expression of it.

The algorithms will get faster and the signal more crowded. What stays scarce is the discipline to follow a trend without falling in love with it, and to cut risk at the exact moment the strategy feels most certain. That discipline — not the signal — is the persistent edge.

# About Alturea Group

Alturea Group is a privately held holding structure consolidating ventures across technology, capital markets, and long-term asset strategies. The Group was founded on a quiet conviction that enduring value is not seized but recognised. It operates at the convergence of capital, knowledge, and technology, treating the three not as separate disciplines but as a single, deliberately constructed architecture.

The Group is anchored by two core entities. IntuitivTech GmbH is a full-stack AI and application development studio. Elantor Capital AG is a private single family office stewarding long-term wealth with precision and a generational horizon. Together they allow Alturea to translate institutional discipline into high-conviction positioning across alternative assets including agriculture, real estate, and green energy.

The Group's investment philosophy rests on four principles: capital preservation with asymmetric upside, data-driven decision-making, sustainable exposure to real-world assets, and lean, high-control operational environments.

Alturea Group does not build for cycles. It builds for permanence.

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