

Factor Strategies March to a Different Beat

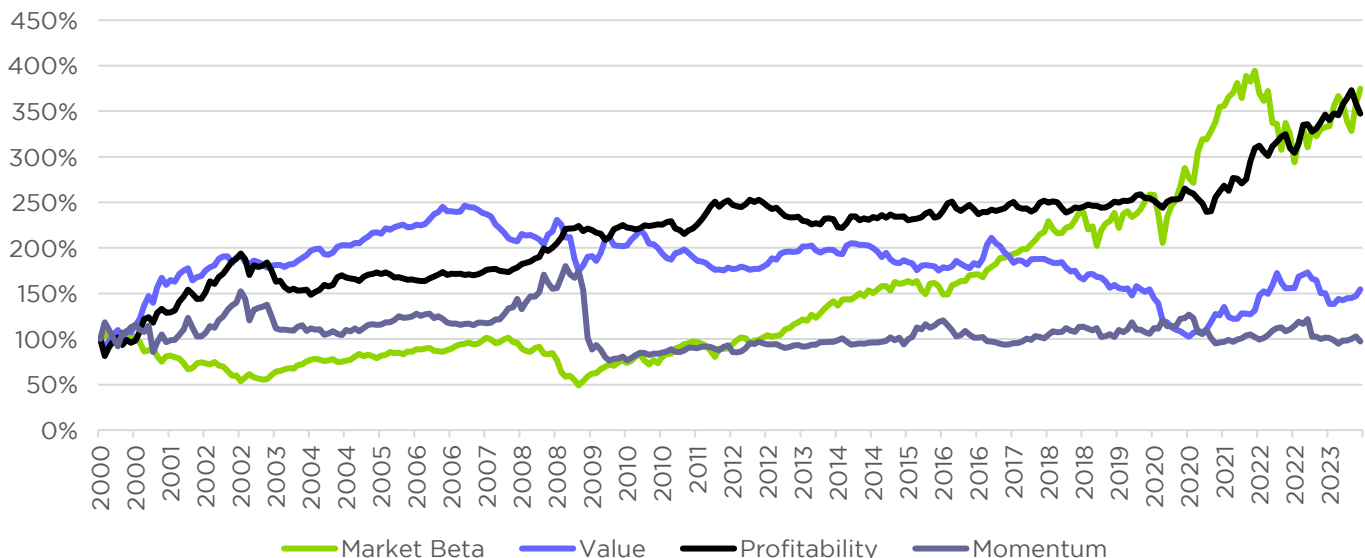
Many investors agree: Active strategies that try to beat the stock market have periods where they perform well (contributing to outperformance) and periods where they perform poorly (contributing to underperformance.)

In other words, any strategy that tries to beat the stock market – even the ones that “really work” - will have “volatility”: Even a strategy that “works” on average in the long run, will have some years of great outperformance, some years of disappointing underperformance, and some years of what we’d expect – some outperformance.

“Quant” factor strategies, which seek to objectively target market-beating sources of return with strong statistical support from academic research, also have volatility – some great years, some bad years, some average years. Some notable factor strategies are:

- **Market Beta:** Also known as “passive indexing,” this strategy seeks to earn the returns generated by the stock market.
- **Value:** Undervalued stocks tend to outperform expensive ones in the long run.
- **Momentum:** Stocks whose prices have lately been rising tend to outperform stocks whose prices have lately been falling.
- **Profitability:** Stocks of more profitable companies tend to outperform stocks of minimally or unprofitable companies.

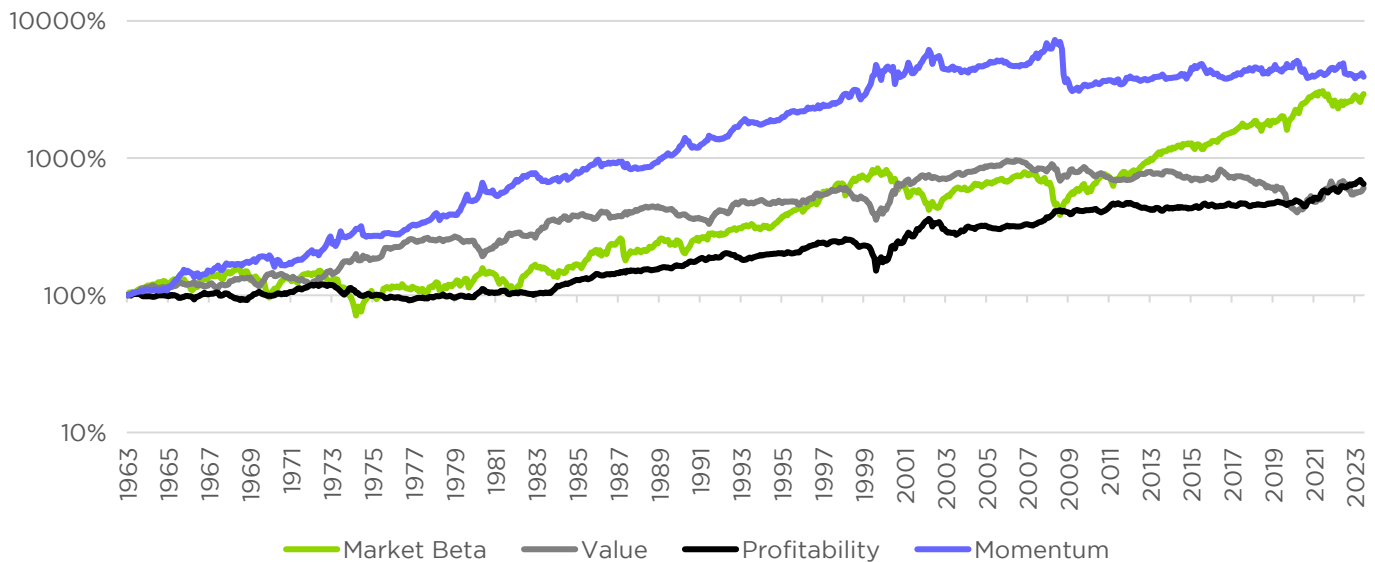
Stock Market & Long-Short Factor Strategy Returns, 2000 – 2023



Source: Fama-French. Time period is 01/01/2000 to 12/31/2023. Market Beta is the Market Risk Premium, or difference between the expected return on a market portfolio and the risk-free rate. It provides a quantitative measure of the extra return demanded by market participants for the increased risk. Value (HML) is a value premium and represents the spread in returns between companies with a high book-to-market value ratio (value companies) and companies with a low book-to-market value ratio. Profitability (RMW) is the difference between the returns of firms with robust (high) and weak (low) operating profitability. Momentum (Mom) is the average of the returns on two (big and small) high prior return portfolios.

The indices shown above are for informational purposes only and are not reflective of any investment. It is not possible to invest in an index or category. The data shown does not reflect or compare features of an actual investment, such as its objectives, costs and expenses, liquidity, safety, guarantees or insurance, fluctuation of principal or return, or tax features.

Stock Market & Long-Short Factor Strategy Returns, 1963 - 2023



Source: Fama-French. Time period is 01/01/1963 to 12/31/2023.

Volatility of active factor strategies is evident from history. This table shows the average, best year, worst year, and standard deviation (a numerical measure of volatility) for each factor strategy. The three factor strategies represent long-short “market neutral” strategies that buy the stocks with the best ratings for each factor and sell short the stocks with the worst ratings.

Average Quarterly Performance During Periods of Rising, Falling & Stable Rates

Strategy	Market Beta	Value	Profitability	Momentum
Average, 1964 - 2022	7%	4%	3%	8%
Best Year, 1964 - 2022	35%	44%	25%	42%
Worst Year, 1964 - 2022	-38%	-30%	-21%	-53%
Standard Deviation	17%	14%	9%	15%

Source: Fama-French.

We see the pattern here. Each strategy has positive long-run expectation (the average return to each strategy is positive since the 1960s); some really outstanding years (20+ percentage points of positive performance) and some really tough years (20+ percentage points of negative performance). Each strategy has volatility. Investors can benefit to the extent they can earn the returns to these strategies while managing the volatility.

Conclusion

One way to manage volatility is to **diversify factor strategies**. Rather than target only value, only momentum, or only profitability, an investor can help reduce volatility by investing in strategies that target multiple factors at the same time. Counterpoint **uses this technique across its factor-oriented strategies**.

Another way to manage volatility is to use machine learning models to identify factors that have attractive prospects. These models incorporate a lot of data to detect historical patterns in factor strategies’ responses to

different investing environments and seek to exploit those patterns when positioning equity portfolios. Counterpoint's funds make extensive use of machine learning to optimize factor exposures within its equity products on an ongoing basis.

Active management strategies have volatility, which can contribute to outperformance and underperformance. When seeking differentiated sources of return in a **long-only** or a **long-short** context, investors need strategies to manage that volatility and give them a good chance of realizing their long-run return potential. Machine learning processes offer a novel way to identify and manage risks associated with factor investing strategies beyond traditional diversification among various strategies that seek to beat the market.

Important information about the funds are available in their prospectus, which can be obtained at counterpointfunds.com or by calling 844-273-8637. The prospectuses should be read carefully before investing. Investors should carefully consider the investment objectives, risks, charges, and expenses of the funds managed by Counterpoint Funds. The Counterpoint Funds fund family is distributed by Northern Lights Distributors, LLC member FINRA/SIPC. Counterpoint Funds is not affiliated with Northern Lights Distributors, LLC member **FINRA/SIPC**.

Important Risk Information

Investments cannot be made in an index. Unmanaged index returns do not reflect any fees, expenses, or sales charges. Past performance is no guarantee of future results. There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. The Adviser's reliance on its strategy and judgments about the attractiveness, value and potential appreciation of particular securities and the tactical allocation among investments may prove to be incorrect and may not produce the desired results. No level of diversification can ensure profits or guarantee against loss.

Definitions

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7228-NLD-03/11/2024