

# Morningstar Target Momentum Index Family

## Learn More

For more information about all of Morningstar's indexes, please visit: <http://indexes.morningstar.com>

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Momentum is one of the most persuasive effects in financial markets. This style of investing is based on the well-documented observation that recent performance tends to persist in the short run. This effect may be attributable to investors underreacting to new information, causing prices to adjust more slowly than they should, or herding into hot stocks and out of recent underperformers. That said, price momentum often has fundamental underpinnings, which serves as a catalyst for stock price changes.

The Morningstar Target Momentum Index family offers a good way to get exposure to stocks with attractive momentum. These indexes target stocks with strong recent price performance, as well as solid and improving profitability.

## Measuring Momentum

Each eligible stock is assigned a Weighted Average Fundamental Factor Rank, or WAFFR, based on six metrics, which capture both price momentum and profitability.

## Metric

- ▶ Percentage change in price from 12-month high
- ▶ Price change from month-end nine months ago
- ▶ Price change from month-end three months ago
- ▶ Three-month fiscal EPS estimate revision
- ▶ Latest fiscal period earnings surprise
- ▶ Trailing return on equity

Together, these metrics reveal a more complete picture of each stock. The inclusion of three price metrics favor stocks with more consistent momentum, which may be more likely to persist. The earnings per share (EPS) revision and earnings surprise metrics favor stocks with improving profitability, while return on equity emphasizes strong past profitability. The inclusion of these fundamental factors reduces the risk of loading up on stocks that are running up on nothing but speculation.

## Index Construction

Large-, mid-, and small-cap stocks from each index's selection universe are eligible for inclusion, but they must pass liquidity screens. Qualifying stocks are ranked on their WAFFR and the highest-ranking stocks are selected to meet a target number of constituents. Current constituents are favored over new stocks to mitigate unnecessary turnover. There are also constraints to limit sector concentration. Stocks that make the cut are weighted equally, and each index is updated quarterly.

## Morningstar Target Momentum Indexes

Index	Target Stock Count
Morningstar Brazil Target Momentum	30
Morningstar Canada Target Momentum	30
Morningstar Developed Markets ex-North America Target Momentum	200
Morningstar Emerging Markets Target Momentum	150
Morningstar US Target Momentum	50