

# Momentum's Role as a Driver of Stock Prices

This week's AAI **Weekly Digest** highlights these "must-read" AAI articles:

- **Momentum's Role as a Driver of Stock Prices:** This article discusses the research on momentum and its long-term record of performance. Included in this discussion is why momentum is not merely for those who rely on technical analysis and why, as well as when, momentum strategies can crash. It also covers the benefits of pairing momentum with valuation in a strategy.
- **A Look at Relative Strength Measures:** Just as a rising tide lifts all boats, a rising market tends to lift all stocks. Well, almost all stocks. Upward price individual stock performance during a strong market may represent only average performance while a minor stock price decline during a major bear market represents strong relative price performance. This article discusses how to calculate and interpret measures of relative price strength.
- **Using a Simple Worksheet to Analyze a Stock:** The task of selecting stocks can be made easier by organizing the process to ensure that salient data and information is evaluated in some logical sequence to make a reasonable decision. This Valuation Worksheet provides an easy-to-follow systematic format that allows you to walk through the complete process of placing a value on a stock without getting bogged down in complicated financial analysis.
- **Assessing the Market's Valuation:** One indicator of the market's valuation is Robert Shiller's cyclically adjusted price-earnings (CAPE) ratio. The indicator is based on the Nobel laureate's study over a century of stock market performance. Inspired by Benjamin Graham and David Dodd, Shiller examined the use of a price-earnings ratio that used average earnings for the trailing 10-year period. Unlike Graham and Dodd, Shiller smoothed the extremes of the ratio by accounting for inflation.

Our **Member Question** for this week is:

***Are defensive corporate board tactics, such as shareholders rights/poison pill plans, good for or detrimental to shareholders?***

Last Week's Results:

***Which of the following behavioral biases is the most useful for successful investment decision-making?***



*Poll results are as of 9 a.m. CST on Monday. 635 respondents.*

## AAII Stock Screens 2015 Review: Small-Cap Wins During Large-Cap Year

Though the relatively flat year favored large-cap growth stocks, the Foolish Small Cap 8 came out on top. There was also a shake-up in the long-term performance rankings.

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