Value Research

Mutual Fund Insight

February 2026 ₹200

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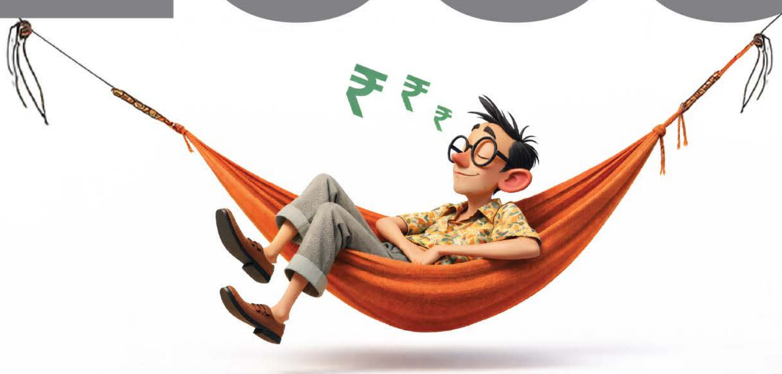

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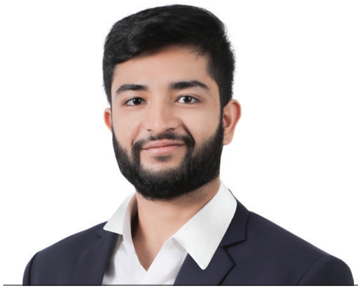

NIRMAY CHOKSI

Should you buy the best-performing factor now?

Why suitability matters more than a factor's recent performance

Investors have an instinct to buy what is working. In factor investing, that instinct is amplified as the scorecard is always visible. There is usually a "number one" factor staring back from recent returns. The trouble is, factors don't stay winners for long. They rotate, reverse and often disappoint those who arrive late.

That's not a flaw in factor investing. It's a defining feature. Each factor is built to work under specific market conditions and to struggle under others.

Why factor winners keep changing

Factor leadership shifts as market conditions change. Growth-led booms, liquidity surges, recoveries and stress periods reward different traits at different times. Investors, however, tend to chase what worked most recently.

The performance of the Value factor offers a reminder. Between 2018 and 2020, the Nifty 500 Value 50 TRI lost 11.69 per cent p.a., while the Nifty 500 TRI gained 8.14 per cent p.a. Many lost patience. But when the cycle turned, so did outcomes. From 2021 to 2025, the Value factor surged to a 34.21 per cent p.a, comfortably beating the Nifty 500's 16.76 per cent p.a. The factor didn't change. The environment did.

No factor works all the time. What helps in one phase can hurt in another. That cyclicality isn't a flaw.

Four building blocks of factor investing

Every factor looks appealing in isolation. Trouble begins when investors forget that each one solves a specific problem and comes with a trade-off. The table titled 'What each factor really delivers' lays this out clearly. Each row reflects a factor's strengths, limitations and ideal conditions.

The takeaway: no factor works all the time. What helps in one phase can hurt in another. That cyclicality is the base of factor investing.

Cyclicality meets behaviour

If investors were perfectly patient, cyclicality wouldn't be a problem. Behaviour makes it one. Most investors discover factors after they have delivered strong returns. By then, expectations are high, and the margin for error is low.

That's how single-factor investing becomes a timing game. Investors shift from Value to Momentum to Quality, just as leadership is about to change. When performance lags, conviction fades, and exits follow. The issue isn't factor design, but behaviour layered on top of cycles.

Which factor should you buy now?

Rather than guessing the "best" factor, the right choice depends on an investor's risk appetite and goals. Aggressive investors comfortable with short-term volatility and deep drawdowns may prefer Momentum, while conservative investors seeking stability may lean towards Low Volatility. Investors seeking balance can turn to multi-

What each factor really delivers

	Quality	Value	Momentum	Low Volatility
What it is	Financially strong, resilient businesses (profitability, balance sheet strength).	Buying relatively cheap stocks (valuation discipline)	Owning what's working (trend persistence)	Preference for lower price fluctuation/ defensive profiles
Pros	Tends to fall less/recover faster; steadier compounding.	Mean reversion potential; works when pessimism is overdone	Strong in sustained bull runs; captures market leadership	Smoother ride; often protects in drawdowns
Cons	Can look expensive; may lag in rallies.	Value traps can underperform for long stretches	Sharp reversals when trends turn	Can lag in fast rallies; may concentrate in defensive sectors
When it shines	Stress periods	Recoveries/regime shifts	Trending markets	Risk-off markets
When it struggles	Liquidity-driven momentum phases	Long growth-led booms	Slowdowns and market corrections	Sharp risk-on rebounds

factor strategies. Combining less-correlated factors, like Quality with Value, or Momentum with Low Volatility, reduces dependence on any single factor.

The table titled "Correlation matrix reveals the case for combining factors" shows how different factor indices move relative to each other. Value, for instance, has a negative correlation with Quality and Low Volatility, meaning these factors often perform differently across market phases, thus allowing multi-factor strategies to deliver greater consistency than single-factor approaches.

Conclusion

NJ AMC continues to anchor its strategy around the Quality factor, while also blending in Value, Low Volatility and Momentum. This multi-factor balance allows investors to participate across market cycles without trying to predict which factor will lead next.

The Value factor's long lull before 2021, followed by sharp outperformance, underscores how factor returns depend on market regimes. Since such shifts are hard to foresee, chasing recent winners often leads to poor timing. Whether choosing a single-factor or multi-factor approach, the principle is the same: align the strategy with your risk appetite and return expectations, and stick with it, as each factor has historically rewarded patient investors by outperforming the market over the long run. ☑

Nirmay Choksi is the Director and Head of Investment at NJ Asset Management Private Limited. The views expressed above are his own.

Correlation matrix reveals the case for combining factors

	Nifty 500 Quality 50 TRI	Nifty 500 Value 50 TRI	Nifty 500 Low Volatility 50 TRI	Nifty 500 Momentum 50 TRI	Nifty 500 Multifactor MQVLv 50 TRI
Nifty 500 Quality 50 TRI	1.00	-0.06	0.61	0.32	0.71
Nifty 500 Value 50 TRI	-0.06	1.00	-0.15	0.21	0.20
Nifty 500 Low Volatility 50 TRI	0.61	-0.15	1.00	0.13	0.70
Nifty 500 Momentum 50 TRI	0.32	0.21	0.13	1.00	0.47
Nifty 500 Multifactor MQVLv 50 TRI	0.71	0.20	0.70	0.47	1.00

Source: Internal Research, CMIE, NSE, NJ AMC's Smartbeta Research Platform. Data covers the period from April 1, 2005, to December 31, 2025, with excess returns over Nifty 500 TRI calculated on a daily frequency. Past performance is not indicative of future results, and past data may or may not be sustained.