

Price Momentum Investing An Introduction

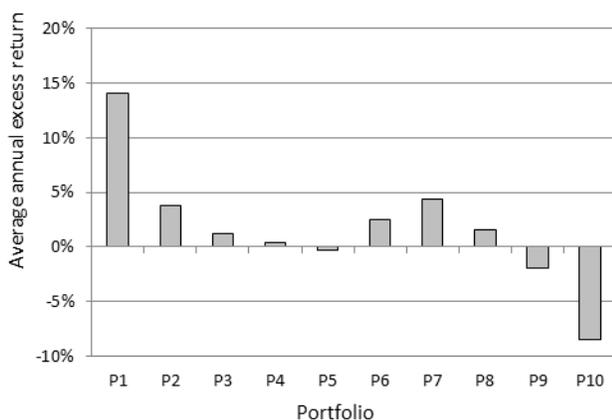
What is price momentum?

Price momentum is without doubt the most powerful and most prevalent stock market phenomenon. It was documented rigorously for the first time about 20 years ago.¹ We now know that it affects almost all asset classes on all markets and during all periods for which data are available.²

Price momentum is the tendency for securities as a group that have gone up the most over the past year to continue outperforming. (The opposite is also true, with losing securities continuing to underperform.)

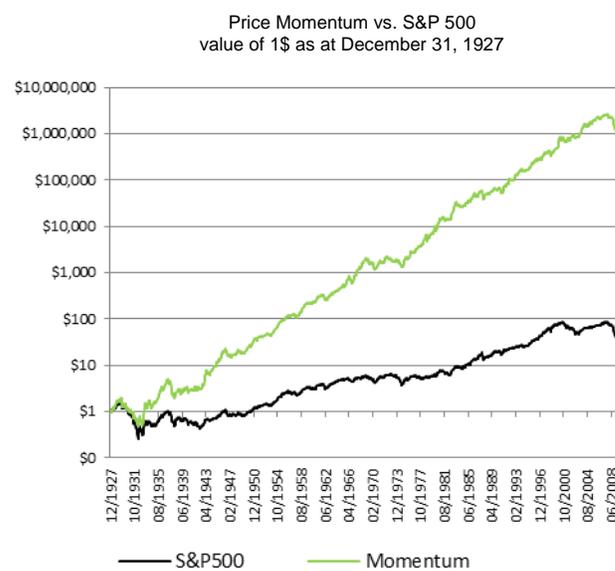
A portfolio made up of the securities that recorded the best performance over the past 12 months will continue to outperform and will generate an excess return of more than 10% before fees annually³ (P1 in the chart below). Conversely, a portfolio consisting of securities with the weakest performance over the past 12 months (P10) will underperform over the long term.

Excess return on portfolios consisting of momentum deciles on the TSX 100 (Jan. 1984 to March 2011)



Price momentum occurs on all main stock markets⁴ but Canada is one of the markets where momentum is the most powerful, possibly because of the preponderance of resources (materials, precious metals and energy) in Canada's economy and concentrated management of financial assets.

Today, price momentum is one of the best-documented finance phenomena and has been the subject of intensive research on most markets. The longest data on the phenomenon have been published on Kenneth R. French's site and are presented in the following chart.⁵

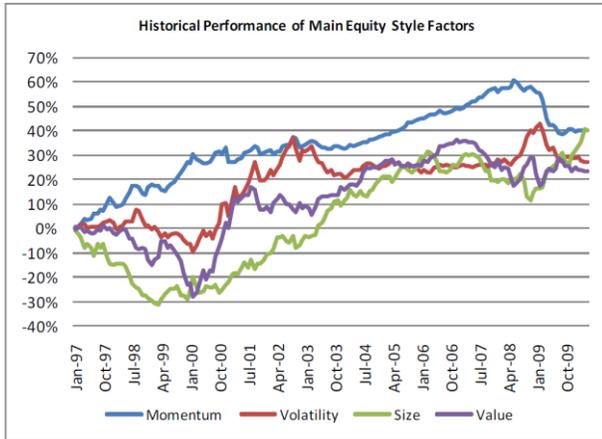


Why does price momentum occur?

Over the past 20 years, a number of hypotheses have been stated and tested in an attempt to explain momentum. It is suspected that two specific aspects of investor behaviour are at the root of this phenomenon. First, investors appear to be slow to assimilate new information about a security. Stocks with an improving outlook therefore do not rise as quickly as they should. Conversely, stocks whose outlook is deteriorating decline more slowly than they should. Second, investors have a tendency to sell their winning investments too soon and to hold their losing investments too long. Behavioural finance researchers call this the disposition effect.⁶

A complementary style

The momentum factor has negative correlation with value and small cap factors. These three styles of management are very complementary.



Source : MSCI⁷

Systematic quantitative approach

Jean-Luc Landry has been a momentum manager for 20 years, and Landry Investment Management uses a systematic quantitative approach to generate

long-term returns that outperform the equity markets.

Our systematic approach ensures we hold onto winners and sell losers.

The quantitative approach developed by Landry Investment Management is based on the scientific literature published in this field over the past 20 years as well as our own proprietary research. Today, Landry Investment Management has access to the most complete data bases on most of the world's stock markets, which it exploits using the most sophisticated software available in order to outperform the benchmark indexes.

Landry Funds

Landry Investment Management offers four funds by prospectus in Quebec and Ontario and two hedge funds by offering memorandum. Our funds are available through the main brokerage firms in Canada.

Selection process of the "momentum" component

Investment universe :

S&P/TSX Composite

S&P 500 Nasdaq100

Major world markets

Major world markets

Filters :

- Liquidity
- Corporate actions

150 stocks

600 stocks

1500 stocks

1200 stocks

Stock selection :

- Quantitative criteria
- Monthly review

20 to 40 stocks

20 to 40 stocks

40 to 50 stocks

20 to 40 stocks

Momentum component construction:

- Weighting based on persistence of momentum
- Monthly rebalancing

Canadian Equity Fund

US Equity Fund

Global Equity Fund

Global Equity L/S Fund

Fund details

	Canadian Equity Fund	U.S. Equity Fund	Global Fund	Global Long Short Fund
Investment objective	To provide long term capital growth by taking advantage of the VALMO strategy in the Canadian market.	To provide long term capital growth by taking advantage of the VALMO strategy in the U.S. market.	To provide long term capital growth by taking advantage of the VALMO strategy in the global markets.	Taking advantage of the VALMO strategy in the global markets without having any exposure to the markets.
Investment Approach	The fund targets an allocation of 50-70% in momentum stocks and 30-50% in value stocks selected from the S&P/TSX Composite.	The fund targets an allocation of 50-70% in momentum stocks and 30-50% in value stocks selected from the S&P 500 and Nasdaq 100	The fund targets a 70%-30% split between Global Price Momentum Stocks and Global Value Stocks selected from the major global large cap indices.	The fund takes long positions in the top Price Momentum and Value selections and takes short positions in bottom Price Momentum or in the respective index ETF's
Benchmark index	S&P/TSX Composite	S&P 500	MSCI World	91 day T-Bills
Code				
• Class A	LDM022	LDM120	LDM123	LDM021
• Class F	LDM002	LDM100	LDM103	LDM001
Management fee				
• Class A	2.0%			
• Class F	1.0%			
Eligible investors	Ontario and Quebec			Accredited investors
Incentive fee	None			20% of excess return over benchmark index
Minimum investment	\$5,000			\$25,000
Registered accounts	Yes			
Sales charge	Class A: 0-5% negotiable with the advisor Class F: none			

About Landry Investment Management

Landry Investment Management offers investment strategies that are unique and top performing for Canadian, US and Global markets by harnessing the strong potential of price momentum and the long term advantages of value investing. Landry Investment Management's role is to efficiently extract from the markets the excess return from both those factors. Jean-Luc Landry is a pioneer in Canadian momentum investing. Benoit Brillon is recognized as a top Canadian value investor. Landry Investment Management employs ten investment professionals at its Montreal office.

Landry Investment Management is registered with the regulatory bodies of Quebec, Ontario, New Brunswick, Alberta, British Columbia and Yukon.

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¹ Jegadeesh, N., and Titman, S. “Returns to Buying Winners and Selling Losers: Implications for Stock Market Efficiency.” *Journal of Finance*, March 1993, Vol. 48, No. 1, 65-91.

² See, for example, US market data going back to 1927 on Kenneth R. French’s site:
<http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/>

³ Landry Investment Management proprietary research.

⁴ Rouwenhorst, K. Geert. “International Momentum Strategies.” August 1996. Yale School of Management.

⁵ See Fama and French in note 2.

⁶ Odean T. “Are Investors Reluctant to Realize Their Losses?” *Journal of Finance*, October 1998, Vol. 53, No. 5.
Shumway, T., and Wu, G. “Does Disposition Drive Momentum?” University of Michigan, February 2006.

⁷ Kang X., Nielsen F. and Fachinotti G. “The New Classic Equity Allocation?” *MSCI Research*. October 2010.

This memorandum should be read in conjunction with the Landry Mutual Funds simplified prospectus. The information contained herein, while obtained from sources that we believe to be reliable, is not guaranteed as to its accuracy or completeness. This memorandum is for information purposes only and does not constitute an offer to sell or a solicitation to buy the securities referred to herein. No securities regulatory authority has in any way passed upon the merits of securities referred to herein and any representation to the contrary is an offence.

An investment in the Landry Funds may result in brokerage commissions, trailing commissions, management fees and other charges. Please read the prospectus before investing. Landry Funds are not guaranteed, their values change frequently and past performance is not indicative of future performance.