

Markets

Record Year for Momentum Trade Is Ending With Widening Cracks

- The strategy of buying stock winners was dominant in 2024
- Yet Friday reversal shows trade may have become too stretched



By [Justina Lee](#)

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... momentum investing, or riding the market's winners. A record year for momentum has rewarded its faithful handsomely – while also raising risk that blowups like Friday's will become more common.

... “Momentum is great until it's not, until something changes,” said Melissa Brown, head of applied research at SimCorp, which offers factor risk models.



Big Mo

... The momentum strategy, an approach widely used by quantitative traders and backed by academic research, captures the tendency for market trends to persist for a while, whether it's because more investors are jumping in or are late to absorb new information. It reallocates into recent winners in every rebalance, helping it capture medium- to long-term trends.