

## You Believe in Momentum, You Just May Not Realize It

### Key Takeaways

- **Momentum is not unique to markets.** It is a fundamental part of human behavior that shows up in sports, habits, careers, businesses, and relationships.
- **Investors often trust momentum everywhere except in stocks,** even though the same forces that drive persistence in life can also drive persistence in markets.
- Thoughtful momentum investing is not about believing trends last forever, but about recognizing that **successful trends often continue longer than people expect** and adapting when they eventually change.

The 2007 New England Patriots went 16-0 in the regular season. They were the most dominant team in NFL history, and by the time they reached the Super Bowl the question wasn't whether they'd win. It was by how much.

They lost.

The Giants, a wildcard team that had barely scraped into the playoffs, beat them 17-14.

This is what most people remember about momentum: the moment it ends. The dramatic reversal. The cautionary tale.

But ask any coach what they fear walking into a game, and they'll say: a hot team. Ask any player what they want most in the fourth quarter, and they'll say: momentum. Ask any fan what they paid for a ticket to watch, and they'll say: a winning streak.

We have whole phrases dedicated to this force. The hot hand. In the zone. On a roll. Commentators describe it in mystical terms. Coaches build entire philosophies around protecting it.

And it's not just sports.

A coworker who gets promoted tends to get promoted again. The person who finally drags herself to the gym on Monday is more likely to go on Wednesday. The kid who finishes one book is more likely to start another. A marriage that's been good for ten years is more likely to be good for eleven. The neighborhood that's been improving for five years tends to keep improving. The company that's beating expectations tends to keep surprising observers.

None of this is controversial. If anything, it's how most people assume the world works. We organize our lives around momentum. We don't just believe in habits, but we have whole industries dedicated to building them. We don't just believe in winning streaks, but we put them on the front page of the sports section.

And yet, in one specific corner of life - the stock market - momentum suddenly becomes a dirty word.

Investors who would never bet against a hot football team will happily bet against a hot stock. They'll call it "extended." They'll say it's "due for a pullback." They'll insist it "can't go up forever."

Some of that is sensible. Trees don't grow to the sky. Bubbles do pop. The 2007 Patriots really did lose.



But the conclusion many people draw is that momentum in stocks is uniquely risky. The idea that this is the one area of life where you should bet against the trend is a strange one. Momentum in stocks works for roughly the same reason that momentum works everywhere else.

A company that grew earnings last quarter is more likely to grow them next quarter. A business gaining market share tends to keep gaining it. A management team that's hit its numbers for five years tends to hit them in year six. A brand that customers love tends to be loved by more customers.

You don't have to believe markets are perfectly efficient to find this plausible. You just have to believe that the humans running the companies, working at them, buying their products, and trading their stocks behave like humans. Which is to say: they take time to change their minds. Trends in human behavior tend to keep going for a while before they reverse. Here's the thing about labels - the same force can sound suspicious or wise depending on what you call it.

"Momentum" sounds reckless when applied to a stock. Call it "compounding," and people line up to recommend it to their grandchildren. Call it "habits," and there are 400 books on it at Barnes & Noble. Call it "a winning culture," and CEOs put it on the wall.

It's all the same idea: small advantages accumulate. Good outcomes make future good outcomes more likely. Things that have been working tend to keep working. Until they don't.

Momentum eventually pauses or reverses. The Patriots lose. We miss a week of exercise. The stock gets ahead of itself. Nobody who's thought about this for more than a minute believes anything goes up in a straight line forever.

But notice what we don't do in those other parts of life. We don't turn down the promotion because someday we might be demoted. We don't avoid the good neighborhood because someday it might cool off. We don't skip the workout because someday we'll be too old to exercise. We don't end the marriage at year ten because year fifteen could be rough.

We let momentum work for as long as it's working, and we adjust when it stops.

Which is, more or less, what any thoughtful momentum strategy should try to do.

The investor who insists momentum is uniquely risky is making a very specific claim: that this one slice of human behavior, the prices of publicly traded companies, operates by rules opposite to every other slice of human behavior. That what's true of careers and habits and homes and sports teams and marriages and businesses is somehow inverted when ticker symbols are involved.

That's possible. But it would be strange.

The simpler explanation is that markets are made of people, run by people, and watched by people. And people, whether they admit it or not, believe in momentum.

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