

You'll frequently hear nowadays that momentum stocks have been under a lot of pressure. But when you look more deeply among high momentum names, you'll see that there are some very clear types of winners and losers. Today and in the long run, investors should emphasize balance in stock selection to be able to ride the wave of momentum and changing sentiment without getting crushed underneath it.

At Matarin, we look at March 19th as a kind of turning point in the market, when momentum began to move out of favor. (This was the day when Janet Yellen was testifying before Congress and indicated that the Fed might start raising rates sooner than expected.) It can often be quite difficult to pinpoint any precise reasons for shifts in investor sentiment, but it's plain to see that one occurred around this time.

In order to get a better understanding of this shift, we put together a portfolio of the Top 100 Momentum stocks coming into mid-March (based upon 12-month total return) and took a look among those stocks to see what is driving performance within the group. The results are quite revealing.

- From March 19th to the end of last week, the top 100 momentum stocks coming into mid-March have underperformed the broad market by nearly 10%.

But it's an oversimplification to suggest that all high momentum stocks are selling off equally. As a matter of fact:

- When you break down those 100 top momentum stocks into those that have been generating positive free cash flow and those which have been burning cash, the cash-generative high momentum stocks have been outperforming the cash-burning ones by nearly 9% since the March 19th turning point.
- When you break down the top 100 momentum stocks into the 50 cheapest and the 50 most expensive (for the purposes of our study, we focused on price-to-sales although other metrics will yield similar results), the cheaper stocks coming into mid-March are now outperforming the most expensive by over 16% since the turning point.

Most recently, the market has been shifting from day to day in what it will reward. On some days more expensive, more speculative, higher momentum names will be rewarded and on other days we see them continuing their recent selloff. Particularly in this type of environment, investors should try to "hedge their bets" by finding really well-balanced stocks. If buying momentum, try to find a company that also has a demonstrably good business and is available at an affordable price. Such stocks may indeed be high flying, but if shifts in sentiment lead to a fall for momentum, these fliers will have a safety net to land on.