

A Portfolio Perspective on the Multitude of Firm Characteristics*

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Abstract

We investigate which characteristics matter jointly for an investor who cares not only about average returns but also about portfolio risk, transaction costs, and out-of-sample performance. We find only a small number of characteristics—six—are significant without transaction costs. With transaction costs, the number of significant characteristics *increases* to 15 because the trades in the underlying stocks required to rebalance different characteristics often net out. We show investors can identify combinations of characteristics with abnormal *out-of-sample* returns net of transaction costs that are not fully explained by the Fama and French (2015) and Hou, Xue, and Zhang (2014) factors.

Keywords: anomalies, risk, transaction costs, out of sample performance.

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