

QUANTITATIVE INVESTOR | QUANTITATIVE FACTOR INVESTING

# Cliff Asness Built the Factor Factory, Then Had to Defend It Through a Lost Decade

The AQR co-founder turned academic asset pricing into institutional portfolios built on value, momentum, quality, and discipline, then faced the hardest test of any quant strategy: surviving when the evidence stopped working on schedule.

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## In brief

Cliff Asness stands at the hinge between modern finance research and the institutional quant industry. His career shows both the power and the limits of systematic factor investing: rigorous evidence can shape portfolios at scale, but it cannot spare investors from long periods of pain, crowding fears, client impatience, and the psychological difficulty of holding an unpopular strategy.

- Asness helped convert academic findings about value, momentum, quality, and related factors into a broad institutional investment platform at AQR Capital Management.
- His formative work combined Eugene Fama's market discipline with evidence that momentum and other non-market factors could help explain returns.
- AQR's growth showed that systematic, transparent, diversified alternative strategies could move from hedge fund partnerships into mutual funds and institutional portfolios.
- The most severe challenge to Asness's method came during the value and factor drawdowns of the late 2010s and early 2020s, when assets and confidence fell sharply.
- The central lesson of his career is not that factors always work, but that a rules-based edge is only useful if clients and managers can withstand the periods when it looks broken.

## Performance markers

|                             |                                                                                                                 |
|-----------------------------|-----------------------------------------------------------------------------------------------------------------|
| AQR assets under management | Approximately \$187.3 billion<br>AQR reported this figure as of December 31, 2025 in SEC-filed fund disclosure. |
|-----------------------------|-----------------------------------------------------------------------------------------------------------------|

|                                        |                                                                                                                                                                                                                        |
|----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AQR founding                           | 1998, with 10 employees<br>AQR's official history says the firm was founded in New York City by Cliff Asness, David Kabiller, Robert Krail, John Liew, and 10 employees, with a hedge fund as its first product.       |
| Firm asset drawdown                    | More than \$220 billion to roughly \$95 billion<br>Morningstar described AQR's firmwide assets as more than \$220 billion by early 2018 and roughly \$95 billion at year-end 2022 after poor performance and outflows. |
| AQR Absolute Return Strategy in 2022   | 43.5% net of fees<br>Reuters reported that the strategy had its best year since inception in 1998 during 2022.                                                                                                         |
| AQR Global Equity Fund Class I         | 30.22% one-year return; 12.38% 10-year average annual return<br>Reported for the period ended September 30, 2025, compared with 17.25% and 12.43% for the MSCI World Net Total Return USD Index.                       |
| AQR Large Cap Multi-Style Fund Class I | 22.07% one-year return; 13.44% 10-year average annual return<br>Reported for the period ended September 30, 2025, compared with 17.75% and 15.04% for the Russell 1000 Total Return Index.                             |

Charts and timelines

| Risk                    |                                                                  | Timeline                             |                                                            |
|-------------------------|------------------------------------------------------------------|--------------------------------------|------------------------------------------------------------|
| Factor drought          | Painful value stretch                                            | Chicago doctorate and Goldman move   | PhD completed; Goldman quantitative research role followed |
| Business risk           | Assets fell from more than \$220 billion to roughly \$95 billion | Value and momentum interaction paper | Financial Analysts Journal publication                     |
| Momentum crash risk     | Sharp rebounds after bear markets can hurt momentum              | AQR founded                          | Firm launched with 10 employees                            |
| Model risk              | Backtests can overstate live results                             | Retail access widens                 | AQR launches mutual funds                                  |
| Fee and complexity risk | Net returns matter after costs                                   | Value and Momentum Everywhere        | Journal of Finance article                                 |
|                         |                                                                  | AUM low after factor pain            | Roughly \$95 billion at year-end                           |
|                         |                                                                  | AUM recovery                         | Approximately \$187.3 billion at year-end                  |

| Philosophy      |                                                             | Performance                            |                              |
|-----------------|-------------------------------------------------------------|----------------------------------------|------------------------------|
| Value           | Buy cheap relative to fundamentals                          | AQR Absolute Return Strategy           | 43.5% net of fees            |
| Momentum        | Favor recent relative winners over losers                   | AQR Global Equity Fund Class I         | 30.22%                       |
| Quality         | Prefer profitable, growing, safer firms when not overpaying | AQR Large Cap Multi-Style Fund Class I | 22.07%                       |
| Diversification | Combine negatively correlated styles                        | AQR Global Equity Fund Class I         | 12.38% average annual return |
| Implementation  | Systematic process plus risk control                        |                                        |                              |

## The Quant Who Turned Patience Into Code

Cliff Asness built his career around an uncomfortable bargain. He wanted to beat markets while taking seriously the argument that markets are hard to beat. That tension, learned in the orbit of Eugene Fama at the University of Chicago, became the intellectual fuel behind AQR Capital Management. The firm did not sell clairvoyance. It sold a colder proposition: measurable traits, tested across long histories and many markets, could be combined into portfolios that were diversified, systematic, and hard to stick with when they were most attractive.

The public version of Asness is unusually vivid for a quant investor. He writes papers, argues in essays, appears in interviews, and has rarely adopted the monkish silence associated with model-driven asset management. Yet the core of his importance is not personality. It is the way he helped industrialize factor investing, translating academic signals such as value and momentum into live portfolios for institutions, hedge fund clients, mutual fund investors, and taxable accounts.

That bridge from seminar room to trading desk is the reason Asness belongs in any serious account of modern investing. He did not discover every factor AQR uses, and he did not build the firm alone. But he became the best known practitioner of a particular idea: if markets are inefficient in repeatable ways, those inefficiencies should be harvested with discipline, diversification, low emotion, and full awareness that the harvest may fail for years before it pays.

## Why He Matters

Asness matters because he sits at the junction of two revolutions that reshaped money management. The first was the academic revolution that questioned simple stock-picking stories and reframed returns through factors, risk premia, anomalies, and benchmarks. The second was the product revolution that brought systematic strategies to a wider client base, including investors who once could not access hedge fund techniques such as long-short equity, managed futures, market neutral stock selection, and multi-strategy alternatives.

AQR's own history captures that progression. Founded in 1998 by Asness, David Kabiller, Robert Krail, John Liew, and 10 employees, the firm began with a multistrategy hedge fund, launched a long-only product soon afterward, and in 2009 became one of the early alternative managers to offer mutual funds. By the end of 2025, AQR reported approximately \$187.3 billion in assets under management in a Securities and Exchange Commission filing.

The more durable story is not size alone. Asness helped normalize the idea that a manager could be active without pretending to possess traditional stock-picking insight about every company. His portfolios made an argument about process: buy broad baskets of securities with favorable expected-return characteristics, short or underweight the opposite, control exposures, manage costs, and accept that long-run evidence may be emotionally useless during a

bad decade.

## Chicago, Fama, and the Heresy of Momentum

The irony of Asness's career begins in Chicago. He studied under Eugene Fama, the scholar most associated with the efficient markets tradition, and earned his MBA and PhD from the University of Chicago. AQR's biography also traces his earlier training to the University of Pennsylvania, where he graduated summa cum laude from both Wharton and the Moore School of Electrical Engineering. The dual background mattered. Finance supplied the questions; engineering supplied the instinct to build systems.

Chicago Booth's account of Asness's early career describes the key synthesis. At Goldman Sachs after his PhD, he was asked to help build a quantitative research operation. The model combined the value insight associated with Fama and French with Asness's work on momentum, seeking cheap stocks that had begun to show favorable price trends. It was a practical answer to an academic puzzle: if low price matters and recent strength matters, perhaps a portfolio should not force investors to choose one faith over the other.

That became one of Asness's signature contributions. In 1997, his Financial Analysts Journal paper on the interaction of value and momentum argued that both signals had power, that they were negatively correlated across stocks, and that each worked differently depending on the level of the other. AQR's own bibliography places his 1994 dissertation, *Variables That Explain Stock Returns*, at the front of the firm's momentum lineage. The career that followed can be read as an extended attempt to operationalize that dissertation.

## The Goldman Laboratory

Goldman Sachs gave Asness something academia could not provide: live money, institutional constraints, and the pressure of implementation. According to Chicago Booth's profile, Goldman asked him to set up a quantitative research desk after he earned his doctorate in 1994. He hired Robert Krail and John Liew, both connected to the Chicago orbit, and the group developed an internal market neutral hedge fund that began with \$10 million and produced a striking first-year result before expanding inside Goldman Sachs Asset Management.

That period established the pattern later associated with AQR. The research did not live as a backtest alone. It had to decide how to rank securities, how to trade, how to short, how to diversify, how to manage risk, and how to explain results to clients who cared less about t-statistics than drawdowns. The intellectual appeal of factor investing was that it seemed general. The practical difficulty was that every general rule had to survive frictions, crowding, financing, taxes, shorting constraints, and regime shifts.

In January 1998, Asness, Krail, Liew, Kabiller, and colleagues left Goldman to form Applied Quantitative Research. The name was almost a mission statement. It rejected both the romance of discretionary genius and the sterile safety of pure theory. AQR would be a business built on applied academic evidence, which meant its credibility would depend on a delicate claim: the firm could stay true to research while adapting enough to trade it in changing markets.

## Value Without Romance

Asness's version of value investing can sound strangely impersonal to investors raised on Benjamin Graham, Warren Buffett, and company-by-company judgment. For AQR, value is not mainly a story about meeting management, estimating a moat, or waiting for the market to recognize a single misunderstood business. It is a diversified phenomenon: securities that look cheap relative to fundamentals have historically tended to outperform expensive securities, although never smoothly and never with certainty.

That distinction explains both the appeal and the criticism. Systematic value can be measured, scaled, tested across markets, and blended with other signals. It also strips away much of the narrative comfort that traditional value investors use to endure pain. A portfolio that is long cheap stocks and short expensive stocks may own companies no one admires and bet against companies everyone loves. It can be correct over time while looking foolish for years.

Asness and his co-authors have repeatedly argued that value should not be caricatured as a single crude ratio. In Fact, Fiction, and Value Investing, they distinguished diversified systematic value from concentrated stock picking and emphasized that value can be measured against fundamentals such as book value, earnings, sales, or other accounting anchors. The practical implication for AQR is that cheapness is a starting point, not a complete philosophy.

## Momentum Without Apology

Momentum was the more provocative half of the Asness synthesis. Buying what has gone up and selling what has gone down sounds, to many traditional investors, like surrendering to crowd psychology. Asness turned that objection around. If markets underreact to news, if investors anchor on old information, if institutions adjust slowly, and if trends persist across assets, then momentum is not a slogan. It is a measurable pattern with a long empirical record.

The 2014 Journal of Portfolio Management article Fact, Fiction, and Momentum Investing, co-authored by Asness, Andrea Frazzini, Ronen Israel, and Tobias Moskowitz, described momentum as the tendency of relative winners to keep outperforming and relative losers to keep underperforming. The paper argued that momentum evidence appeared over very long U.S. equity histories, across many countries, and across asset classes. It also acknowledged the obvious point that matters most to clients: momentum is risky and can suffer difficult stretches.

The intellectual move was to pair momentum with value rather than set them against each other. In interviews, Asness has described value and momentum as negatively correlated strategies that can hedge each other without eliminating risk. Cheap stocks often have poor recent performance, while recent winners often look expensive. Combining the two creates a portfolio that can be more balanced than either alone, but it also creates new communication problems when both factors fail at once.

## Value and Momentum Everywhere

The paper that gave Asness's worldview its broadest statement was Value and Momentum Everywhere, written with Tobias Moskowitz and Lasse Heje Pedersen and published in The Journal of Finance in 2013 after earlier working paper versions. Its core claim was sweeping but carefully framed: value and momentum generated abnormal returns not only among individual stocks in multiple countries, but also across country equity indices, government bonds, currencies, and commodities.

That finding mattered because it shifted the debate from a narrow equity anomaly to a cross-market structure. If value and momentum appeared in many unrelated assets, the case for them as durable features of markets became stronger. The paper also found that value in one asset class tended to be positively correlated with value in others, momentum with momentum in others, and value and momentum tended to be negatively correlated with each other.

For AQR, this was more than a publication. It was a blueprint for a multi-asset firm. If the same organizing principles could apply to stocks, bonds, currencies, commodities, and macro strategies, then a manager could build diversified portfolios around style premia rather than around star portfolio managers. The risk was equally clear. A common factor structure meant that diversification across markets might still leave clients exposed to the same underlying style cycle.

## Quality, Defensive Traits, and the Search for Cleaner Signals

Asness's career is often summarized as value plus momentum, but AQR's research program moved well beyond that pair. Quality became one of the most important additions. In Quality Minus Junk, Asness, Frazzini, and Pedersen defined quality through characteristics that investors should rationally be willing to pay for, including profitability, growth, safety, and payout. Their empirical puzzle was that high-quality stocks appeared to command higher prices, but not high enough to eliminate attractive risk-adjusted returns.

The quality work also showed how AQR's process tried to refine value rather than abandon it. A cheap company may be cheap because it is deteriorating. A strong company may deserve a premium, but not any premium. The phrase

quality at a reasonable price, developed in the paper's framework, echoed old value investing language while giving it a systematic form. It was a way to ask whether the market had underpriced not just assets, but the quality of those assets.

Defensive and low-risk ideas fit the same architecture. AQR's research ecosystem has long examined value, momentum, quality, low beta, carry, and related premia. The common principle is not that every factor is magic. It is that a factor needs economic intuition, empirical breadth, implementability, and a reason to survive after publication. The stricter the test, the fewer signals deserve real capital.

## The Portfolio Machine

AQR's edge, when it has one, is not supposed to reside in a single forecast. It is meant to emerge from many small forecasts combined across securities, styles, asset classes, and implementation systems. The firm's own description emphasizes proprietary models, valuation, momentum, and other factors, applied through a systematic process. Its approach page describes systematic investing grounded in economic theory and a broad set of traditional and alternative strategies.

That kind of portfolio machine requires humility of a specific sort. A discretionary investor may place enormous weight on a handful of decisions. AQR's style distributes conviction across thousands of decisions, but it does not eliminate judgment. Someone still decides which signals count, how they are measured, how quickly portfolios trade, how leverage is used, how capacity is constrained, and how to balance expected returns against transaction costs and drawdown risk.

The result is a different form of active management. AQR's equity funds may hold hundreds of securities, while hedge fund and alternative strategies can express factor views through long and short positions, futures, currencies, commodities, and arbitrage trades. The process can look mechanical from the outside. Inside, it depends on continuous research, technology, risk systems, trading discipline, and a culture willing to say no to signals that are statistically seductive but economically weak.

## Risk Management and the Failure Modes of Evidence

The central risk in Asness's method is not that the models fail to know tomorrow. They were never supposed to know tomorrow. The deeper risk is that long-term evidence can become least persuasive exactly when expected returns are highest. A factor can get cheaper, more attractive, and more hated at the same time. The manager who leans in may be following the model, but clients may experience the decision as stubbornness.

Momentum has its own failure mode. The literature has documented that momentum crashes can occur after severe bear markets followed by sharp rebounds, when beaten-down losers surge and prior winners lag. Value has a different pain pattern: it can trail when expensive growth stocks become more expensive and cheap stocks become cheaper. Quality, defensive, carry, and trend signals have their own vulnerabilities. Combining factors reduces dependence on one source of return, but it cannot remove common stress.

This is why Asness often returns to psychology. Quant investing can sound like the removal of emotion from markets, but it merely relocates emotion. The model may be unemotional; the client is not. The hardest risk to manage is not volatility in a spreadsheet. It is the institutional risk that boards, consultants, clients, and even portfolio managers lose faith before the strategy has time to work.

## The Drawdown That Tested AQR

The late 2010s and early 2020s supplied the career test Asness could not avoid. AQR's factor-based strategies struggled as growth dominated value, factor returns disappointed, and clients questioned whether the old evidence had been arbitrated away. Bloomberg reported in January 2020 that AQR planned to cut 5 percent to 10 percent of staff after underperformance and asset declines, marking a public low point for a firm that had been treated as one of

quant investing's great institutional successes.

Morningstar later described the asset swing in stark terms. By early 2018, AQR's worldwide mutual fund business had grown to more than \$55 billion and firmwide assets to more than \$220 billion, including separate accounts and private pooled vehicles. After years of weak performance and outflows, Morningstar said firmwide assets fell to roughly \$95 billion at year-end 2022. For a strategy built on long-run evidence, the business cycle became a referendum on staying power.

AQR did not simply declare the models intact and move on. The firm adjusted oversight, examined process, and continued to argue that value's pain reflected unusually large valuation spreads rather than a permanent death of the factor. That argument was both analytically plausible and commercially difficult. Clients could understand cheapness in theory. Living through it after years of underperformance was another matter.

## The Comeback Was Real, but Not a Cure

The recovery, when it came, was dramatic enough to remind critics why factor investing survived earlier obituaries. Reuters reported that AQR's Absolute Return Strategy returned 43.5 percent net of fees in 2022, its best year since its 1998 inception, while the firm's Equity Market Neutral Global Value and Global Macro strategies also posted record years. Those figures came during a period when equities and bonds were under pressure, creating a vivid contrast between AQR's crisis in confidence and its renewed performance.

Public mutual fund evidence offers a more mixed but useful picture. In the AQR Funds annual shareholder report for the year ended September 30, 2025, the AQR Large Cap Multi-Style Fund Class I showed a 22.07 percent one-year average annual return and 13.44 percent over 10 years, compared with 17.75 percent and 15.04 percent for the Russell 1000 Total Return Index. The AQR Global Equity Fund Class I showed 30.22 percent for one year and 12.38 percent over 10 years, close to the MSCI World Net Total Return Index's 12.43 percent over 10 years.

These numbers do not settle the debate, and they should not be treated as a universal scorecard for Asness. AQR manages many products with different objectives, constraints, and benchmarks. The right reading is more nuanced. The rebound validated the possibility that factors can recover after brutal stretches. It did not erase the fact that a decade of live results can look ordinary, uncomfortable, or worse depending on the strategy, fee, benchmark, and entry point.

## The Criticisms: Crowding, Fees, and the Backtest Problem

Asness's critics tend to cluster around three objections. First, if everyone knows the factors, their excess returns should shrink. Second, if factor returns are systematic and rules-based, managers should not charge fees that resemble those of high-conviction alpha shops. Third, historical tests can overstate reality because they are vulnerable to data mining, changing market structure, trading costs, taxes, shorting frictions, and the psychological convenience of knowing the full sample in advance.

AQR's defense is partly empirical and partly economic. The firm argues that the major factors have appeared across long periods, geographies, and asset classes, and that they often have intuitive behavioral or risk-based foundations. Asness has also been unusually direct about data mining, warning against overfitted signals that look good only because researchers searched too hard. That self-criticism is important, but it does not end the debate. A live strategy is judged by live returns after fees, not by academic elegance.

The fee question is especially persistent because Asness has criticized expensive active management while running an active firm. His answer is that not all active management is the same. A systematic alternative portfolio that offers shorting, leverage, derivatives, tax-aware implementation, risk management, and nontraditional exposures is not equivalent to a plain index fund. Critics counter that clients still need to ask whether the net result justifies cost and complexity. Both statements can be true.

# The Public Combatant

Asness is not merely a portfolio manager. He is a public combatant in the long argument over market efficiency, valuation, passive investing, private equity, tail hedging, and the behavior of investors. His writing is often technical, but his public style is sharper than the usual institutional voice. That has made him influential beyond AQR's client base and occasionally polarizing in a business that often prefers ambiguity.

AQR's biography lists a long record of publications and awards, including Bernstein Fabozzi/Jacobs Levy Awards, Graham and Dodd awards, and the CFA Institute's James R. Vertin Award for a body of research relevant to investment professionals. Those honors matter because they show that Asness is not just a marketer of quant products. He has remained an active contributor to the professional literature while running a major asset management firm.

The public role has costs. Strong views age in public. A manager who argues that value is attractive, that markets are irrational, or that private assets are mispriced invites scrutiny when timing is poor. Asness's willingness to argue can clarify the stakes, but it also makes AQR's drawdowns feel personal to observers. In that sense, he has lived with the same bargain as his models: transparency creates trust, but it also exposes every losing stretch.

# What Remains Useful Today

The most useful lesson from Asness is that evidence should discipline intuition without replacing judgment. Value, momentum, quality, trend, and related styles are not magic formulas. They are hypotheses about how markets reward risk, misprice information, or compensate investors for bearing uncomfortable exposures. Their value lies in breadth, implementation, diversification, and persistence, not in any promise that they will outperform over a convenient horizon.

The most dangerous lesson is the opposite: the belief that a long backtest can make pain irrelevant. Asness's career shows that even a rigorous strategy can suffer for long enough to threaten careers, businesses, and client patience. The practical edge in factor investing is partly statistical, partly operational, and partly behavioral. The behavior may be the hardest part, because it must be supplied during the exact period when the strategy's evidence seems least convincing.

That is why Asness remains relevant in a market increasingly shaped by indexing, factor products, private markets, artificial intelligence, and algorithmic competition. The tools change, but the problem does not. Investors still chase what has worked, abandon what has disappointed, overpay for certainty, and underestimate the cost of impatience. Asness built a firm around exploiting those tendencies. His record also proves how painful it can be to be on the other side of them.

# Disclosure

Educational financial journalism and market research only. Not financial, investment, trading, tax, or legal advice. Market data and analysis may be delayed, incomplete, or inaccurate.

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