The Morningstar® Global Risk Model

Learn More Today

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The Morningstar Global Risk Model helps you identify and assess the amount of risk in your portfolio. By tracking every stock's underlying economic exposure to 36 factors, including six unique to Morningstar, our model lets you quickly understand how your portfolio could behave in a variety of market conditions.

The factor exposures in our model root out underlying revenue drivers to find a stock's true sources of returns, and they include proprietary factors (such as our Moat Rating and Fair Value estimates) derived from the proven, forward-looking analysis of our research team. Our model uses the exposures to go beyond standard models to project a stock or stock portfolio's vulnerability to extreme market events.

A New Lens for Viewing Risk

The basic building blocks of our model are 36 factor exposures. Some of these are based on the historical correlations of equity returns to regional benchmarks, and they let you compare a stock's relationship to these factors with that of other stocks and the overall market. They also let you see how the exposures have changed over time. Our model has four distinct types of exposure factors:

Style exposures: There are eleven style factor exposures, including six proprietary Morningstar measures. Each stock is rated on an unbounded range that generally spans from -2 (large negative risk exposure) to 2 (large positive risk exposure).

Sector exposures: There are eleven sector exposures, with each stock rated on a range from 0 (no exposure) to 1 (large risk exposure).

Region exposures: There are seven regional factor exposures with each stock rated on a range from 0 (no exposure) to 1 (large risk exposure).

Currency exposures: There are seven currency factor exposures, with each stock rated on an unbounded range that generally spans from -2 (large negative risk exposure) to 2 (large positive risk exposure).

Our Global Risk Model goes beyond standard exposure analysis by looking at a stock's underlying economic exposures. For example, standard risk models would consider a U.S.-domiciled firm to have 100% regional exposure to North America, while our model would look at where the firm actually does business and assign regional exposures accordingly.

Using Cutting-Edge Research to Forecast Risk

Our Global Risk Model uses these factor exposures and historical market data to form expectations about what the future may hold for a given stock or portfolio over a variety of time horizons. Thanks to Morningstar's long history of investment research, our model is also able to forecast the amount of risk a stock faces during extreme market events, calculating skewness/kurtosis, value at risk and conditional value at risk, and the probability of negative returns. This gives you an idea of what's at stake if a "black swan" event hits the market.

Morningstar Global Risk Model Exposure Factors

(Morningstar proprietary factors in red.)

Style

- Economic Moat
- Financial Health
- Ownership Popularity
- Ownership Risk
- Valuation
- Valuation Uncertainty
- Liquidity
- Momentum
- Size
- Value-Growth
- Volatility

Sector

- Basic Materials
- Consumer Cyclical
- Consumer Defensive
- Energy
- Financial Services
- Healthcare
- Industrials
- Real Estate
- Technology
- Telecommunications
- Utilities

Region

- Developed Americas
- Developed Asia Pacific
- Developed Europe
- Emerging Americas
- Emerging Asia Pacific
- Emerging Europe
- Emerging Middle East

Currency

- Australian Dollar
- British Pound
- Canadian Dollar
- Euro
- Japanese Yen
- New Zealand Dollar
- Swiss Franc

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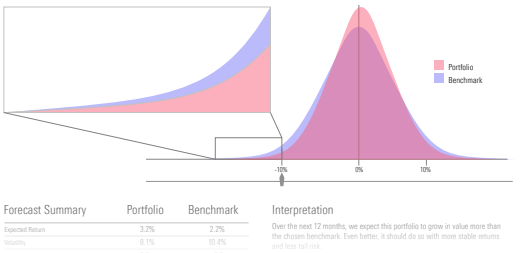
Ways to use the Morningstar Global Risk Model



Data and Screening

Incorporate our risk-model data in your investment processes to sort stocks by exposure or add them to your proprietary algorithms. You can also add our data to your investment screens to find stocks with similar risk profiles.



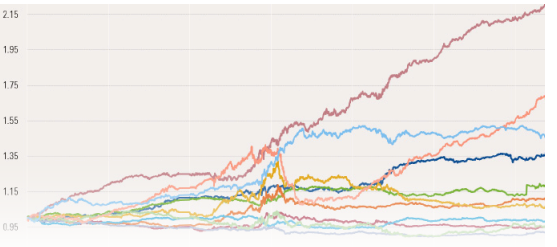
Forecast

Compare a portfolio's return forecast with a benchmark's over a specific time horizon, including non-normal return distributions.



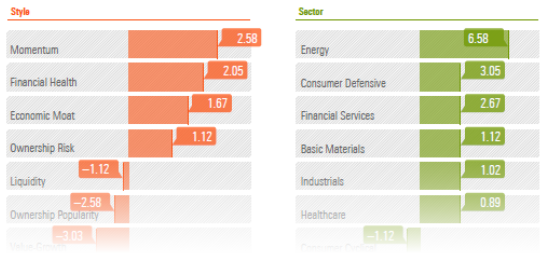
Attribution

Use our model as another lens through which you can understand the drivers behind portfolio behavior.



Risk Premia Charting

Examine the market's historical factor exposures to see how factors relate to one another, how they behave over time and help you make more-informed investment decisions.



Risk Signature

See all of a stock's factor exposures in a single easy-to-read graphic.

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