



Uncovering the Drivers of Equity Performance

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This situation problem was written by Tonatiuh Najera Ruiz (tnajera@tec.mx), with the purpose of serving as discussion material in the classroom; it does not intend to illustrate good or bad administrative practices. The story on this document is based on different people's experiences; some data has been modified at the request of the people and institutions involved.

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Context

Jessica Rivera is a recently promoted junior analyst at *Tradivium Asset Management (Tradivium)*, a well-respected privately held investment management firm headquartered in Chicago (U.S.A.). Jessica's journey to *Tradivium* was not linear: after earning top honors at a leading business school, she spent two years refining her analytical skills at a boutique research shop. Known for her diligence, Jessica has sharpened her quantitative skills and has a genuine interest in sustainable investing. She quickly caught the attention of *Tradivium's* recruitment team.

In the competitive world of finance, *Tradivium* stands out for its hybrid investment philosophy—balancing cutting-edge data science and quantitative analysis with traditional, fundamental approaches. Although the firm may not be a household name, it has cultivated a loyal base of institutional clients thanks to its rigorous methodology and forward-thinking inclusion of ESG (Environmental, Social, and Governance) factors in portfolio construction. The reputation of *Tradivium* was built on thorough research, careful risk management, and transparency.

Image. Jessica's arrival at *Tradivium* was a turning point for the company.



Source. Canva AI, 2025.

The Major Shift

Shortly after joining *Tradivium*, Jessica was invited to a confidential meeting with her supervisor, Thomas Lee, the firm's respected Head of Equities Research. Thomas told Jessica that, with the new fiscal year approaching, the firm's Senior Committee is contemplating a major shift in how it evaluates potential investments—no longer will stock selection rely solely on classic financial metrics or sector rotation. Instead, they aim to blend ESG analytics directly into their screening process.

Thomas sets out the assignment:

“Jessica, I need you to lead the analysis of what really drives annual stock returns in the NASDAQ Market. We want to know not only whether size, volatility, leverage, and profit margin matter, but also how ESG scores and sector affiliations play into outperformance. Your results will help us rethink the way Tradivium screens equities for our institutional clients”.

Thomas placed a large dataset in front of Jessica that had data for over 3,000 stocks with financial and industry characteristics. **SEE Dataset [HERE](#).**

Response

Jessica saw this project as an extraordinary opportunity, because if her analysis yields actionable insights, she will have a direct impact on *Tradivium*’s fundamental approach to equity research.

Image. When Thomas finished outlining the task, Jessica felt a surge of both nerves and excitement.



Source. Canva AI, 2025.

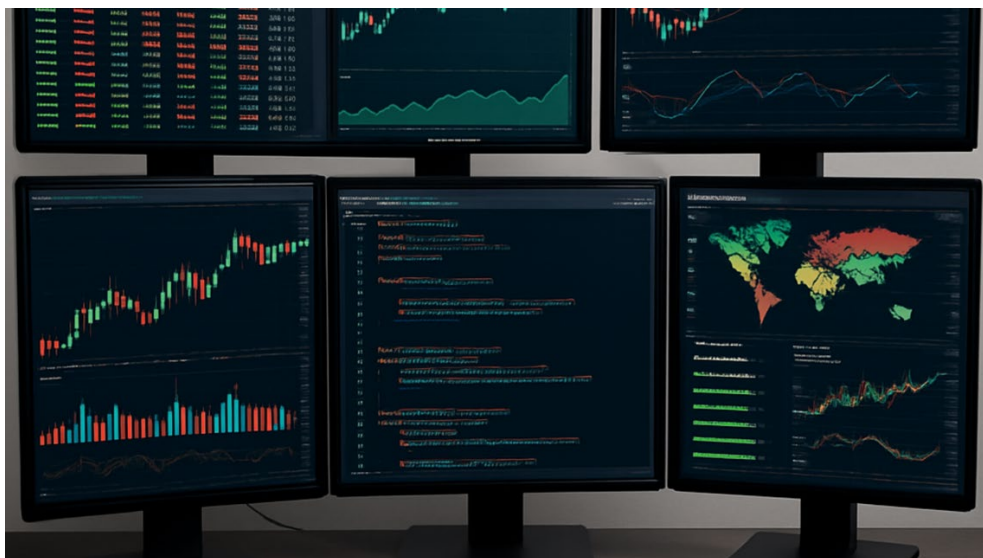
However, the weight of the assignment did not escape her. She worried about the complexity of the data, the possibility that traditional econometric problems like multicollinearity and heteroscedasticity could distort her results, and the sheer magnitude of breaking new ground with ESG integration.

Despite her concerns, Jessica was inspired by the trust placed in her and the challenge ahead. She was determined to approach every step rigorously, knowing that her conclusions may shape high-stakes investment decisions for months or years to come.

Jessica took a deep breath. For the next four weeks, the responsibility to deliver robust, data-driven recommendations rests entirely on her shoulders. She defined her goal: *to produce a comprehensive, credible analysis and convince the investment committee with data and evidence.*

Expected Analysis

Image. Jessica has four weeks to analyze the data, construct models, and deliver clear, actionable recommendations to *Tradivium's* Senior Committee.



Source. Canva AI, 2025.

Jessica thinks that her journey will require the following systematic approach:

- Stage 1: Explore and clean the data, define variables, and estimate an initial regression model.
- Stage 2: Conduct statistical inference, interpret coefficients, and assess real-world significance.
- Stage 3: Diagnose and address key econometric issues, especially multicollinearity and heteroscedasticity.
- Stage 4: Finalize the model, present findings, and propose practical screening enhancements for *Tradivium's* portfolio managers.

As the project begins, Jessica is both apprehensive and exhilarated. She knows that, at *Tradivium*, excellence is not just expected—it is required.

Reference

The source of the data from the NASDAQ Market linked to this document is in the Excel file.