FarmTest: Factor-adjusted robust multiple testing with approximate false discovery control

Jianqing Fan, Yuan Ke, Qiang Sun, and Wen-Xin Zhou

Abstract

Large-scale multiple testing with correlated and heavy-tailed data arises in a wide range of research areas from genomics, medical imaging to finance. Conventional methods for estimating the false discovery proportion (FDP) often ignore the effect of heavy-tailedness and the dependence structure among test statistics, and thus may lead to inefficient or even inconsistent estimation. Also, the commonly imposed joint normality assumption is arguably too stringent for many applications. To address these challenges, in this paper we propose a Factor-Adjusted Robust Multiple Testing (FarmTest) procedure for large-scale simultaneous inference with control of the false discovery proportion. We demonstrate that robust factor adjustments are extremely important in both controlling the FDP and improving the power. We identify general conditions under which the proposed method produces consistent estimate of the FDP. As a byproduct that is of independent interest, we establish an exponential-type deviation inequality for a robust $U$-type covariance estimator under the spectral norm. Extensive numerical experiments demonstrate the advantage of the proposed method over several state-of-the-art methods especially when the

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data are generated from heavy-tailed distributions. The proposed procedures
are implemented in the R-package FarmTest.

Keywords: Factor adjustment; False discovery proportion; Huber loss; Large-scale multiple testing; Robustness.

1 Introduction

Large-scale multiple testing problems with independent test statistics have been extensively
explored and is now well understood in both practice and theory (Benjamini and Hochberg,
1995; Storey, 2002; Genovese and Wasserman, 2004; Lehmann and Romano, 2005). Yet, in
practice, correlation effects often exist across many observed test statistics. For instance,
in neuroscience studies, although the neuroimaging data may appear very high dimensional
(with millions of voxels), the effect degrees of freedom are generally much smaller, due to
spatial correlation and spatial continuity (Medland et al., 2014). In genomic studies, genes
are usually correlated regulatorily or functionally: multiple genes may belong to the same
regulatory pathway or there may exist gene-gene interactions. Ignoring these dependence
structures will cause loss of statistical power or lead to inconsistent estimates.

To understand the effect of dependencies on multiple testing problems, validity of stan-
dard multiple testing procedures have been studied under weak dependencies, see Benjamini
and Yekutieli (2001), Storey (2003), Storey et al. (2004), Ferreira and Zwinderman (2006),
Chi (2007), Wu (2008), Clarke and Hall (2009), Blanchard and Roquain (2009) and Liu and
Shao (2014), among others. For example, it has been shown that, the Benjamini-Hochberg
procedure or Storey’s procedure, is still able to control the false discovery rate (FDR) or
false discovery proportion, when only weak dependencies are present. Nevertheless, multi-
ple testing under general and strong dependence structures remains a challenge. Directly
applying standard FDR controlling procedures developed for independent test statistics
in this case can lead to inaccurate false discovery control and spurious outcomes. There-
fore, correlations must be accounted for in the inference procedure; see, for example, Owen
(2009), Schwartzman and Lin (2011), Fan et al. (2012), Desai and Storey (2012), Wang et
al. (2017) and Fan and Han (2017) for an unavoidably incomplete overview.

In this paper, we focus on the case where the dependence structure can be characterized by latent factors, that is, there exist a few unobserved variables that correlate with the outcome. A multi-factor model is an effective tool for modeling dependence, with wide applications in genomics (Kustra et al., 2006), neuroscience (Pournara and Wernish, 2007) and financial economics (Bai, 2003). It relies on the identification of a linear space of random vectors capturing the dependence structure of the data. In Friguet et al. (2009) and Desai and Storey (2012), the authors assumed a strict factor model with independent idiosyncratic errors, and used the EM algorithm to estimate the factor loadings as well as the realized factors. The FDP is then estimated by subtracting out the realized common factors. Fan et al. (2012) considered a general setting for estimating the FDP, where the test statistics follow a multivariate normal distribution with an arbitrary but known covariance structure. Later, Fan and Han (2017) used the POET estimator (Fan et al., 2013) to estimate the unknown covariance matrix, and then proposed a fully data-driven estimate of the FDP. Recently, Wang et al. (2017) considered a more complex model with both observed primary variables and unobserved latent factors.

All the methods above assume joint normality of factors and noise, and thus methods based on least squares regression, or likelihood generally, can be applied. However, normality is really an idealization of the complex random world. For example, the distribution of the normalized gene expressions is often far from normal, regardless of the normalization methods used (Purdom and Holmes, 2005). Heavy-tailed data also frequently appear in many other scientific fields, such as financial engineering (Cont, 2001) and biomedical imaging (Eklund et al., 2016). In finance, the seminal papers by Mandelbrot (1963) and Fama (1963) discussed the power law behavior of asset returns, and Cont (2001) provided extensive evidence of heavy-tailedness in financial returns. More recently, in functional MRI studies, it has been observed by Eklund et al. (2016) that the parametric statistical methods failed to produce valid clusterwise inference, where the principal cause is that the spatial autocorrelation functions do not follow the assumed Gaussian shape. The heavy-tailedness issue may further be amplified by high dimensionality in large-scale inference. In the context of multiple testing, as the dimension gets larger, more outliers are likely to appear, and
this may lead to significant false discoveries. It is therefore imperative to develop inferential procedures that adjust dependence and are robust to heavy-tailedness at the same time.

In this paper, we investigate the problem of large-scale multiple testing under dependence via an approximate factor model, where the outcome variables are correlated with each other through latent factors. To simultaneously incorporate the dependencies and tackle with heavy-tailed data, we propose a factor-adjusted robust multiple testing (FarmTest) procedure. As we proceed, we gradually unveil the whole procedure in four steps. First, we consider an oracle factor-adjusted procedure given the knowledge of the factors and loadings, which provides the key insights into the problem. Next, using the idea of adaptive Huber regression (Zhou et al., 2018; Sun et al., 2017), we consider estimating the realized factors when the loadings were known and provide a robust control of the FDP. In the third part, we propose two robust covariance matrix estimators, a $U$-statistic based estimator and another one based on elementwise robustification. We then apply spectral decomposition to these estimators and use principal factors to recover the factor loadings. The final part, which is provided in Appendix A, gives a fully data-driven testing procedure based on sample splitting: use part of the data for loading construction and the other part for simultaneous inference.

First we illustrate our methodology with a numerical example that consists of observations $X_i$'s generated from a three-factor model:

$$X_i = \mu + B f_i + \varepsilon_i, \quad i = 1, \ldots, n,$$

where $f_i \sim N(0, I_3)$ and the entries of $B$ are independent and identically distributed (IID) from a uniform distribution, $U(-1, 1)$. The idiosyncratic errors, $\varepsilon_i$'s, are independently generated from the $t_3$-distribution with 3 degrees of freedom. The sample size $n$ and dimension $p$ are set to be 100 and 500, respectively. We take the true means to be $\mu_j = 0.6$ for $1 \leq j \leq 0.25 \times p$ and 0 otherwise. In Figure 1, we plot the histograms of sample means, robust mean estimators, and their counterparts with factor-adjustment. Details of robust mean estimation and the related factor-adjusted procedure are specified in Sections 2 and 3. Due to the existence of latent factors and heavy-tailed errors, there is a large overlap
between sample means from the null and alternative, which makes it difficult to distinguish them from each other. With the help of either robustification or factor-adjustment, the null and alternative are better separated as shown in the figure. Further, with both factor-adjustment and robustification, the resulting estimators are tightly concentrated around the true means so that the signals are evidently differentiated from the noise. This example demonstrates the effectiveness of the factor-adjusted robust multiple testing procedure.

The rest of the paper proceeds as follows. In Section 2, we describe a generic factor-adjusted robust multiple testing procedure under the approximate factor model. In Section 3, we gradually unfold the proposed method, while we establish its theoretical properties along the way. Section 4 is devoted to simulated numerical studies. Section 5 analyzes an empirical dataset. We conclude the paper in Section 6. Proofs of the main theorems and technical lemmas are provided in the online supplement.

**NOTATION.** We adopt the following notations throughout the paper. For any $d \times d$ matrix
\( \mathbf{A} = (A_{k\ell})_{1 \leq k, \ell \leq d} \), we write \( \| \mathbf{A} \|_{\text{max}} = \max_{1 \leq k, \ell \leq d} |A_{k\ell}| \), \( \| \mathbf{A} \|_1 = \max_{1 \leq \ell \leq d} \sum_{k=1}^{d} |A_{k\ell}| \) and \( \| \mathbf{A} \|_{\infty} = \max_{1 \leq k \leq d} \sum_{\ell=1}^{d} |A_{k\ell}| \). Moreover, we use \( \| \mathbf{A} \| \) and \( \text{tr}(\mathbf{A}) = \sum_{k=1}^{d} A_{kk} \) to denote the spectral norm and the trace of \( \mathbf{A} \). When \( \mathbf{A} \) is symmetric, we have \( \| \mathbf{A} \| = \max_{1 \leq k \leq d} |\lambda_k(\mathbf{A})| \), where \( \lambda_1(\mathbf{A}) \geq \lambda_2(\mathbf{A}) \geq \cdots \geq \lambda_d(\mathbf{A}) \) are the eigenvalues of \( \mathbf{A} \), and it holds \( \| \mathbf{A} \| \leq \| \mathbf{A} \|^{1/2} \| \mathbf{A} \|^{1/2} \leq \max\{\| \mathbf{A} \|_1, \| \mathbf{A} \|_{\infty}\} \leq d^{1/2} \| \mathbf{A} \| \). We use \( \lambda_{\max}(\mathbf{A}) \) and \( \lambda_{\min}(\mathbf{A}) \) to denote the maximum and minimum eigenvalues of \( \mathbf{A} \), respectively.

2 FarmTest

In this section, we describe a generic factor-adjusted robust multiple testing procedure under the approximate factor model.

2.1 Problem setup

Let \( \mathbf{X} = (X_1, \ldots, X_p)^T \) be a \( p \)-dimensional random vector with mean \( \mathbf{\mu} = (\mu_1, \ldots, \mu_p)^T \) and covariance matrix \( \mathbf{\Sigma} = (\sigma_{jk})_{1 \leq j,k \leq p} \). We assume the dependence structure in \( \mathbf{X} \) is captured by a few latent factors such that \( \mathbf{X} = \mathbf{\mu} + \mathbf{B}f + \varepsilon \), where \( \mathbf{B} = (b_1, \ldots, b_p)^T \in \mathbb{R}^{p \times K} \) is the deterministic factor loading matrix, \( f = (f_{i1}, \ldots, f_{iK})^T \in \mathbb{R}^K \) is the zero-mean latent random factor, and \( \varepsilon = (\varepsilon_1, \ldots, \varepsilon_p)^T \in \mathbb{R}^p \) consists of idiosyncratic errors that are uncorrelated with \( f \). Suppose we observe \( n \) random samples \( X_1, \ldots, X_n \) from \( \mathbf{X} \), satisfying

\[
X_i = \mathbf{\mu} + \mathbf{B}f_i + \varepsilon_i, \quad i = 1, \ldots, n, \tag{1}
\]

where \( f_i \)'s and \( \varepsilon_i \)'s are IID samples of \( f \) and \( \varepsilon \), respectively. Assume that \( f \) and \( \varepsilon \) have covariance matrices \( \mathbf{\Sigma}_f \) and \( \mathbf{\Sigma}_\varepsilon = (\sigma_{\varepsilon,jk})_{1 \leq j,k \leq p} \). In addition, note that \( \mathbf{B} \) and \( f_i \) are not separately identifiable as they both are unobserved. For an arbitrary \( K \times K \) invertible matrix \( \mathbf{H} \), one can choose \( \mathbf{B}^* = \mathbf{BH} \) and \( f_i^* = \mathbf{H}^{-1}f_i \) such that \( \mathbf{B}^* f_i^* = \mathbf{B} f_i \). Since \( \mathbf{H} \) contains \( K^2 \) free parameters, we impose the following conditions to make \( \mathbf{B} \) and \( f \) identifiable:

\[
\mathbf{\Sigma}_f = \mathbf{I}_K \quad \text{and} \quad \mathbf{B}^T \mathbf{B} \text{ is diagonal}, \tag{2}
\]
where the two conditions provide \( K(K + 1)/2 \) and \( K(K - 1)/2 \) restrictions, respectively. The choice of identification conditions is not unique. We refer to Lawley and Maxwell (1971) and Bai and Li (2012) for details of more identification strategies. Model (1) with observable factors has no identification issue and is studied elsewhere (Zhou et al., 2018).

In this paper, we are interested in simultaneously testing the following hypotheses

\[
H_{0j} : \mu_j = 0 \quad \text{versus} \quad H_{1j} : \mu_j \neq 0, \quad \text{for } 1 \leq j \leq p, \tag{3}
\]

based on the observed data \( \{X_i\}_{i=1}^n \). Many existing works (e.g. Friguet et al., 2009; Fan et al., 2012; Fan and Han, 2017) in the literature assume multivariate normality of the idiosyncratic errors. However, the Gaussian assumption on the sampling distribution is often unrealistic in many practical applications. For each feature, the measurements across different subjects consist of samples from potentially different distributions with quite different scales, and thus can be highly skewed and heavy-tailed. In the big data regime, we are often dealing with thousands or tens of thousands of features simultaneously. Simply by chance, some variables exhibit heavy and/or asymmetric tails. As a consequence, with the number of variables grows, some outliers may turn out to be so dominant that they can be mistakenly regarded as discoveries. Therefore, it is imperative to develop robust alternatives that are insensitive to outliers and data contaminations.

For each \( 1 \leq j \leq p \), let \( T_j \) be a generic test statistic for testing the individual hypothesis \( H_{0j} \). For a prespecified thresholding level \( z > 0 \), we reject the \( j \)-th null hypothesis whenever \( |T_j| \geq z \). The number of total discoveries \( R(z) \) and the number of false discoveries \( V(z) \) can be written as

\[
R(z) = \sum_{j=1}^{p} I(|T_j| \geq z) \quad \text{and} \quad V(z) = \sum_{j \in H_0} I(|T_j| \geq z), \tag{4}
\]

respectively, where \( H_0 := \{ j : 1 \leq j \leq p, \mu_j = 0 \} \) is the set of the true nulls with cardinality \( p_0 = |H_0| = \sum_{j=1}^{p} I(\mu_j = 0) \). We are mainly interested in controlling the false discovery proportion, \( \text{FDP}(z) = V(z)/R(z) \) with the convention \( 0/0 = 0 \). We remark here that \( R(z) \) is observable given the data, while \( V(z) \), which depends on the set of true nulls, is an unobserved random quantity that needs to be estimated. Comparing with FDR control,
controlling FDP is arguably more relevant as it is directly related to the current experiment.

2.2 A generic procedure

We now propose a Factor-Adjusted Robust Multiple Testing procedure, which we call FarmTest. As the name suggests, this procedure utilizes the dependence structure in $X$ and is robust against heavy tailedness of the error distributions. Recent studies in Fan et al. (2017) and Zhou et al. (2018) show that the Huber estimator (Huber, 1964) with a properly diverging robustification parameter admits a sub-Gaussian-type deviation bound for heavy-tailed data under mild moment conditions. This new perspective motivates new methods, as described below. To begin with, we revisit the Huber loss and the robustification parameter.

**Definition 1.** The Huber loss $\ell_\tau(\cdot)$ (Huber, 1964) is defined as

$$
\ell_\tau(u) = \begin{cases} 
  u^2/2, & \text{if } |u| \leq \tau, \\
  \tau|u| - \tau^2/2, & \text{if } |u| > \tau,
\end{cases}
$$

where $\tau > 0$ is refereed to as the robustification parameter that trades bias for robustness.

We refer to the Huber loss in Definition 1 above as the adaptive Huber loss to recognize the adaptivity of the robustification parameter $\tau$. For any $1 \leq j \leq p$, with a robustification parameter $\tau_j$.
parameter $\tau_j > 0$, we consider the following $M$-estimator of $\mu_j$:

$$\hat{\mu}_j = \arg \min_{\theta \in \mathbb{R}} \sum_{i=1}^{n} \ell_{\tau_j}(X_{ij} - \theta),$$  \hspace{1cm} (5)$$

where we suppress the dependence of $\hat{\mu}_j$ on $\tau_j$ for simplicity. As shown in our theoretical results, the parameter $\tau$ plays an important role in controlling the bias-robustness tradeoff. To guarantee the asymptotic normality of $\hat{\mu}_j$ uniformly over $j = 1, \ldots, p$, and to achieve optimal bias-robustness tradeoff, we choose $\tau = \tau(n, p)$ of the form $C\sqrt{n} \log(np)$, where the constant $C > 0$ can be selected via cross-validation. We refer to Section 4.1 for details.

Specifically, we show that $\sqrt{n}(\hat{\mu}_j - \mu_j - b_j^T \bar{f})$ is asymptotically normal with mean $\mu_j$ and variance $\sigma_{\varepsilon,jj}$ (with details given in Appendix B):

$$\sqrt{n}(\hat{\mu}_j - \mu_j - b_j^T \bar{f}) = N(0, \sigma_{\varepsilon,jj}) + o_P(1) \text{ uniformly over } j = 1, \ldots, p. \hspace{1cm} (6)$$

Here, $\hat{\mu}_j$’s can be regarded as robust versions of the sample averages $\bar{X}_j = \mu_j + b_j^T \bar{f} + \bar{\varepsilon}_j$, where $\bar{X}_j = n^{-1} \sum_{i=1}^{n} X_{ij}$ and $\bar{\varepsilon}_j = n^{-1} \sum_{i=1}^{n} \varepsilon_{ij}$.

Given a prespecified level $\alpha \in (0, 1)$, our testing procedure consists of three steps: (i) robust estimation of the loading vectors and factors; (ii) construction of factor-adjusted marginal test statistics and their $P$-values; and (iii) computing the critical value or threshold level with the estimated FDP controlled at $\alpha$. The detailed procedure is stated below.

We expect that the factor-adjusted test statistic $T_j$ given in (8) is close in distribution to standard normal for all $j = 1, \ldots, p$. Hence, according to the law of large numbers, the number of false discoveries $V(z) = \sum_{j \in \mathcal{H}_0} I(|T_j| \geq z)$ should be close to $2p_0 \Phi(-z)$ for any $z \geq 0$. The number of null hypotheses $p_0$ is typically unknown. In the high dimensional and sparse regime, where both $p$ and $p_0$ are large and $p_1 = p - p_0 = o(p)$ is relatively small, FDP$^A$ in (9) serves as a slightly conservative surrogate for the asymptotic approximation $2p_0 \Phi(-z)/R(z)$. If the proportion $\pi_0 = p_0/p$ is bounded away from 1 as $p \to \infty$, FDP$^A$ tends to overestimate the true FDP. The estimation of $\pi_0$ has long been known as an interesting problem. See, for example, Storey (2002), Langaas and Lindqvist (2005), Meinshausen and Rice (2006), Jin and Cai (2007) and Jin (2008), among others. Therefore, a more adaptive method is to combine the above procedure with, for example Storey’s approach, to calibrate
**FarmTest Procedure.**

**Input:** Observed data $X_i = (X_{i1}, \ldots, X_{ip})^T \in \mathbb{R}^p$ for $i = 1, \ldots, n$, a prespecified level $\alpha \in (0, 1)$ and an integer $K \geq 1$.

**Procedure:**

**Step 1:** Construct a robust covariance matrix estimator $\hat{\Sigma} \in \mathbb{R}^{p \times p}$ based on observed data. Let $\hat{\lambda}_1 \geq \hat{\lambda}_2 \geq \cdots \geq \hat{\lambda}_K$ be the top $K$ eigenvalues of $\hat{\Sigma}$, and $\hat{\mathbf{v}}_1, \hat{\mathbf{v}}_2, \ldots, \hat{\mathbf{v}}_K$ be the corresponding eigenvectors. Define $\hat{B} = (\tilde{\lambda}_1^{1/2} \hat{\mathbf{v}}_1, \ldots, \tilde{\lambda}_K^{1/2} \hat{\mathbf{v}}_K) \in \mathbb{R}^{p \times K}$, where $\tilde{\lambda}_k = \max(\hat{\lambda}_k, 0)$. Let $\hat{\mathbf{b}}_1, \ldots, \hat{\mathbf{b}}_p \in \mathbb{R}^K$ be the $p$ rows of $\hat{B}$, and define

$$\hat{f} \in \arg \min_{f \in \mathbb{R}^K} \sum_{j=1}^p \ell_\gamma(\bar{X}_j - \hat{\mathbf{b}}_j^T \hat{f}),$$

where $\gamma = \gamma(n, p) > 0$ is a robustification parameter.

**Step 2:** Construct factor-adjusted test statistics

$$T_j = \sqrt{n} \frac{\hat{\sigma}_{\varepsilon, jj}}{\hat{\sigma}_{\varepsilon, jj}} (\hat{\mu}_j - \hat{\mathbf{b}}_j^T \hat{f}), \quad j = 1, \ldots, p,$$

where $\hat{\sigma}_{\varepsilon, jj} = \hat{\theta}_j - \hat{\mu}_j^2 - ||\hat{\mathbf{b}}_j||_2^2$, $\hat{\theta}_j = \arg \min_{\theta \geq \hat{\mu}_j^2 + ||\hat{\mathbf{b}}_j||_2^2} \sum_{i=1}^n \ell_{\tau_{jj}}(X_{ij}^2 - \theta)$, $\tau_{jj}$’s are robustification parameters and $\hat{\mu}_j$’s are defined in (5). Here, we use the fact that $\mathbb{E}(X_{ij}^2) = \hat{\mu}_j^2 + ||\hat{\mathbf{b}}_j||_2^2 + \text{var}(\varepsilon_j)$, according to the identification condition.

**Step 3:** Calculate the critical value $z_{\alpha}$ as

$$z_{\alpha} = \inf \{z \geq 0 : \text{FDP}^A(z) \leq \alpha \},$$

where $\text{FDP}^A(z) = 2p\Phi(-z)/R(z)$ denotes the approximate FDP and $R(z)$ is as in (4). Finally, for $j = 1, \ldots, p$, reject $H_{0j}$ whenever $|T_j| \geq z_{\alpha}$.

the rejection region for individual hypotheses. Let $\{ P_j = 2\Phi(-|T_j|) \}_{j=1}^p$ be the approximate $P$-values. For a predetermined $\eta \in [0, 1)$, Storey (2002) suggested to estimate $\pi_0$ by

$$\hat{\pi}_0(\eta) = \frac{1}{(1 - \eta)p} \sum_{j=1}^p I(P_j > \eta).$$

The fundamental principle that underpins Storey’s procedure is that most of the large $P$-values come from the true null hypotheses and thus are uniformly distributed. For a sufficiently large $\eta$, about $(1 - \eta)\pi_0$ of the $P$-values are expected to lie in $(\eta, 1]$. Therefore, the proportion of $P$-values that exceed $\eta$ should be close to $(1 - \eta)\pi_0$. A value of $\eta = 1/2$ is used in the SAM software (Storey and Tibshirani, 2003); while it was shown in Blanchard and Roquain (2009) that the choice $\eta = \alpha$ may have better properties for dependent $P$-values.
Incorporating the above estimate of π₀, a modified estimate of FDP takes the form

\[
\text{FDP}^A(z; \eta) = 2p\hat{\pi}_0(\eta)\Phi(-z)/R(z), \quad z \geq 0.
\]

Finally, for any prespecified \( \alpha \in (0, 1) \), we reject \( H_{0j} \) whenever \( |T_j| \geq z_{\alpha, \eta} \), where

\[
z_{\alpha, \eta} = \inf\{z \geq 0 : \text{FDP}^A(z; \eta) \leq \alpha\}. \tag{11}
\]

By definition, it is easy to see that \( z_{\alpha, 0} \) coincides with \( z_\alpha \) given in (9).

### 3 Theoretical properties

To fully understand the impact of factor-adjustment as well as robust estimation, we successively investigate the theoretical properties of the FarmTest through several steps, starting with an oracle procedure that provides key insights into the problem.

#### 3.1 An oracle procedure

First we consider an oracle procedure that serves as a heuristic device. In this section, we assume the loading matrix \( \mathbf{B} \) is known and the factors \( \{\mathbf{f}_i\}_{i=1}^n \) are observable. In this case, it is natural to use the factor-adjusted data:

\[
\mathbf{Y}_i = \mathbf{X}_i - \mathbf{B}\mathbf{f}_i = \mu + \mathbf{\varepsilon}_i,
\]

which has smaller componentwise variances (which are \( \{\sigma_{e,jj}\}_{j=1}^p \) and assumed known for the moment) than those of \( \mathbf{X}_i \). Thus, instead of using \( \sqrt{n}\hat{\mu}_j \) given in (5), it is more efficient to construct robust mean estimates using factor-adjusted data. This is essentially the same as using the test statistic

\[
T^\circ_j = \sqrt{\frac{n}{\sigma_{e,jj}}}(\hat{\mu}_j - \mathbf{b}_j^T\mathbf{f}), \tag{12}
\]

whose distribution is close to the standard normal distribution under the \( j \)-th null hypothesis. Recall that \( p_0 = |\mathcal{H}_0| \) is the number of true null hypotheses. Then, for any \( z \geq 0 \),

\[
\frac{1}{p_0}V(z) = \frac{1}{p_0} \sum_{j \in \mathcal{H}_0} I(|T^\circ_j| \geq z).
\]
Intuitively, the (conditional) law of large numbers suggests that \( p_0^{-1}V(z) = 2\Phi(-z) + o_p(1) \). Hence, the FDP based on oracle test statistics admits an asymptotic expression

\[
\text{AFDP}_{\text{orc}}(z) = 2p_0\Phi(-z)/R(z), \; z \geq 0,
\]

where “AFDP” stands for the asymptotic FDP and a subscript “orc” is added to highlight its role as an oracle.

**Remark 1.** For testing the individual hypothesis \( H_{0j} \), Fan and Han (2017) considered the test statistic \( \sqrt{n}\bar{X}_j \), where \( \bar{X}_j = (1/n)\sum_{i=1}^{n}X_{ij} \). The empirical means, without factor adjustments, are inefficient as elucidated in Section 1. In addition, they are sensitive to the tails of error distributions (Catoni, 2012). In fact, with many collected variables, by chance only, some test statistics \( \sqrt{n}\bar{X}_j \) can be so large in magnitude empirically that they may be mistakenly regarded as discoveries.

We will show that \( \text{AFDP}_{\text{orc}}(z) \) provides a valid asymptotic approximation of the (unknown) true FDP using oracle statistics \( \{T_j \} \) in high dimensions. The latter will be denoted as \( \text{FDP}_{\text{orc}}(z) \).

\( \omega_{n,p} = \sqrt{n/\log(np)}. \) (14)

We impose the following moment and regularity assumptions.

**Assumption 1.** (i) \( p = p(n) \to \infty \) and \( \log(p) = o(\sqrt{n}) \) as \( n \to \infty \); (ii) \( X \in \mathbb{R}^p \) follows the approximate factor model (1) with \( f \) and \( \varepsilon \) being independent; (iii) \( \mathbb{E}(f) = 0, \text{cov}(f) = I_K \) and \( \|f\|_{\psi_2} \leq A_f \) for some \( A_f > 0 \), where \( \|\cdot\|_{\psi_2} \) denotes the vector sub-Gaussian norm (Vershynin, 2018); (iv) There exist constants \( C_\varepsilon, c_\varepsilon > 0 \) such that \( c_\varepsilon \leq \min_{1 \leq j \leq p} \sigma_{\varepsilon,jj}^{1/2} \leq \max_{1 \leq j \leq p} v_j \leq C_\varepsilon \), where \( v_j := (\mathbb{E} |f|^4_j)^{1/4} \); (v) There exist constants \( \kappa_0 \in (0,1) \) and \( \kappa_1 > 0 \) such that \( \max_{1 \leq j,k \leq p} |r_{\varepsilon,jk}| \leq \kappa_0 \) and \( p^{-2}\sum_{1 \leq j,k \leq p} |r_{\varepsilon,jk}| = O(p^{-\kappa_1}) \) as \( p \to \infty \).

Part (iii) of Assumption 1 requires \( f \in \mathbb{R}^K \) to be a sub-Gaussian random vector. Typical examples include: (1) Gaussian and Bernoulli random vectors, (2) random vector that is uniformly distributed on the Euclidean sphere in \( \mathbb{R}^K \) with center at the origin and radius
\( \sqrt{K} \), (3) random vector that is uniformly distributed on the Euclidean ball centered at the origin with radius \( \sqrt{K} \), and (4) random vector that is uniformly distributed on the unit cube \([-1, 1]^K\). In all these cases, the constant \( A_f \) is a dimension-free constant. See Section 3.4 in Vershynin (2018) for detailed discussions of multivariate sub-Gaussian distributions.

Part (v) is a technical condition on the covariance structure that allows \( \varepsilon_1, \ldots, \varepsilon_p \) to be weakly dependent. It relaxes the sparsity condition on the off-diagonal entries of \( \Sigma_{\varepsilon} \).

**Theorem 1.** Suppose that Assumption 1 holds and \( p_0 \geq ap \) for some constant \( a \in (0, 1) \). Let \( \tau_j = a_j \omega_{n,p} \) with \( a_j \geq \sigma_{jj}^{1/2} \) for \( j = 1, \ldots, p \), where \( \omega_{n,p} \) is given by (14). Then we have

\[
p_0^{-1} V(z) = 2\Phi(-z) + o_P(1) \tag{15}
\]

\[
p^{-1} R(z) = \frac{1}{p} \sum_{j=1}^{p} \left\{ \Phi \left( -z + \frac{\sqrt{n}\mu_j}{\sqrt{\sigma_{\varepsilon, jj}}} \right) + \Phi \left( -z - \frac{\sqrt{n}\mu_j}{\sqrt{\sigma_{\varepsilon, jj}}} \right) \right\} + o_P(1) \tag{16}
\]

uniformly over \( z \geq 0 \) as \( n, p \to \infty \). Consequently, for any \( z \geq 0 \),

\[
|\text{FDP}_{\text{orc}}(z) - \text{AFDP}_{\text{orc}}(z)| = o_P(1) \quad \text{as } n, p \to \infty.
\]

### 3.2 Robust estimation of loading matrix

To realize the oracle procedure in practice, we need to estimate the loading matrix \( B \) and the covariance matrix \( \Sigma \), especially its diagonal entries. Before proceeding, we first investigate how these preliminary estimates affect FDP estimation. Assume at the moment that \( \bar{f} \) is given, let \( \tilde{b}_1, \ldots, \tilde{b}_p \) and \( \tilde{\sigma}_{11}, \ldots, \tilde{\sigma}_{pp} \) be generic estimates of \( b_1, \ldots, b_p \) and \( \sigma_{11}, \ldots, \sigma_{pp} \), respectively. In view of (2), \( \sigma_{\varepsilon, jj} \) can be naturally estimated by \( \tilde{\sigma}_{jj} - \|\tilde{b}_j\|_2^2 \). The corresponding FDP and its asymptotic approximation are given by

\[
\tilde{\text{FDP}}(z) = \tilde{V}(z)/\tilde{R}(z) \quad \text{and} \quad \tilde{\text{AFDP}}(z) = 2p_0\Phi(-z)/\tilde{R}(z), \quad z \geq 0,
\]

where \( \tilde{V}(z) = \sum_{j \in \mathcal{H}_0} I(|\tilde{T}_j| \geq z) \), \( \tilde{R}(z) = \sum_{j=1}^{p} I(|\tilde{T}_j| \geq z) \) and \( \tilde{T}_j = (n/\tilde{\sigma}_{\varepsilon, jj})^{1/2}(\tilde{\mu}_j - \tilde{b}_j^T\tilde{f}) \) for \( j = 1, \ldots, p \). The following proposition shows that to ensure consistent FDP approximation or furthermore estimation, it suffices to establish the uniform convergence results in (17) for the preliminary estimators of \( B \) and \( \{\sigma_{jj}\}_{j=1}^{p} \). Later in Section 3.2.1 and
3.2.2, we propose two types of robust estimators satisfying (17) when \( p = p(n) \) is allowed to grow exponentially fast with \( n \).

**Proposition 1.** Assume the conditions of Theorem 1 hold and that the preliminary estimates \( \{\tilde{b}_j, \tilde{\sigma}_{jj}\}_{j=1}^p \) satisfy

\[
\max_{1 \leq j \leq p} \|\tilde{b}_j - b_j\|_2 = o_P((\log n)^{-1/2}), \quad \max_{1 \leq j \leq p} |\tilde{\sigma}_{jj} - \sigma_{jj}| = o_P((\log n)^{-1/2}).
\]  

(17)

Then, for any \( z \geq 0 \), \(|\text{FDP}(z) - \text{AFDP}(z)| = o_P(1)\) as \( n, p \to \infty \).

Next we focus on estimating \( B \) under identification condition (2). Write \( B = (\bar{b}_1, \ldots, \bar{b}_K) \) and assume without loss of generality that \( \bar{b}_1, \ldots, \bar{b}_K \in \mathbb{R}^p \) are ordered such that \( \{\|\bar{b}_\ell\|_2\}_{\ell=1}^K \) is in a non-increasing order. In this notation, we have \( \Sigma = \sum_{\ell=1}^K \bar{b}_\ell \bar{b}_\ell^T + \Sigma_e \), and \( \bar{b}_{\ell_1}^T \bar{b}_{\ell_2} = 0 \) for \( 1 \leq \ell_1 \neq \ell_2 \leq K \). Let \( \lambda_1, \ldots, \lambda_p \) be the eigenvalues of \( \Sigma \) in a descending order, with associated eigenvectors denoted by \( v_1, \ldots, v_p \in \mathbb{R}^p \). By Weyl’s theorem,

|\( \lambda_j - \|\bar{b}_j\|_2^2 \| \leq \|\Sigma_e\| \text{ for } 1 \leq j \leq K \) and |\( \lambda_j \| \leq \|\Sigma_e\| \text{ for } j > K \).

Moreover, under the pervasiveness condition (see Assumption 2 below), the eigenvectors \( v_j \) and \( \bar{b}_j/\|\bar{b}_j\|_2 \) of \( \Sigma \) and \( BB^T \), respectively, are close to each other for \( 1 \leq j \leq K \). The estimation of \( B \) thus depends heavily on estimating \( \Sigma \) along with its eigenstructure.

In Sections 3.2.1 and 3.2.2, we propose two different robust covariance matrix estimators that are also of independent interest. The construction of \( \hat{B} \) then follows from Step 1 of the FarmTest procedure described in Section 2.2.

### 3.2.1 U-type covariance estimation

First, we propose a U-type covariance matrix estimator, which leads to estimates of the unobserved factors under condition (2). Let \( \psi_\tau(\cdot) \) be the derivative of \( \ell_\tau(\cdot) \) given by

\[
\psi_\tau(u) = \min(|u|, \tau) \text{sign}(u), \quad u \in \mathbb{R}.
\]

Given \( n \) real-valued random variables \( X_1, \ldots, X_n \) from \( X \) with mean \( \mu \), a fast and robust estimator of \( \mu \) is given by \( \hat{\mu}_\tau = (1/n) \sum_{i=1}^n \psi_\tau(X_i) \). Minsker (2016) extended this univariate
estimation scheme to matrix settings based on the following definition on matrix functionals.

**Definition 2.** Given a real-valued function $f$ defined on $\mathbb{R}$ and a symmetric $A \in \mathbb{R}^{d \times d}$ with eigenvalue decomposition $A = U \Lambda U^T$ such that $\Lambda = \text{diag}(\lambda_1, \ldots, \lambda_d)$, $f(A)$ is defined as $f(A) = U f(\Lambda) U^T$, where $f(\Lambda) = \text{diag}(f(\lambda_1), \ldots, f(\lambda_d))$.

Suppose we observe $n$ random samples $X_1, \ldots, X_n$ from $X$ with mean $\mu$ and covariance matrix $\Sigma = \mathbb{E}\{(X - \mu)(X - \mu)^T\}$. If $\mu$ were known, a robust estimator of $\Sigma$ can be simply constructed by $(1/n) \sum_{i=1}^{n} \psi_{\tau}\{(X_i - \mu)(X_i - \mu)^T\}$. In practice, the assumption of a known $\mu$ is often unrealistic. Instead, we suggest to estimate $\Sigma$ using the following $U$-statistic based estimator:

$$\hat{\Sigma}_U(\tau) = \frac{1}{\binom{n}{2}} \sum_{1 \leq i < j \leq n} \psi_{\tau}\left\{\frac{1}{2}(X_i - X_j)(X_i - X_j)^T\right\}.$$  

Observe that $(X_i - X_j)(X_i - X_j)^T$ is a rank one matrix with eigenvalue $\|X_i - X_j\|_2^2$ and eigenvector $(X_i - X_j)/\|X_i - X_j\|_2$. Therefore, by Definition 2, $\hat{\Sigma}_U(\tau)$ can be equivalently written as

$$\frac{1}{\binom{n}{2}} \sum_{1 \leq i < j \leq n} \psi_{\tau}\left(\frac{1}{2} \|X_i - X_j\|^2\right) \frac{(X_i - X_j)(X_i - X_j)^T}{\|X_i - X_j\|_2^2}.  \quad (18)$$

This alternative expression makes it much easier to compute. The following theorem provides an exponential-type deviation inequality for $\hat{\Sigma}_U(\tau)$, representing a useful complement to the results in Minsker (2016). See, for example, Remark 8 therein.

**Theorem 2.** Let

$$v^2 = \frac{1}{2} \left\|\mathbb{E}\{(X - \mu)(X - \mu)^T\}^2 + \text{tr}(\Sigma)\Sigma + 2\Sigma^2\right\|.  \quad (19)$$

For any $t > 0$, the estimator $\hat{\Sigma}_U = \hat{\Sigma}_U(\tau)$ with $\tau \geq (v/2)(n/t)^{1/2}$ satisfies

$$\Pr\{\|\hat{\Sigma}_U - \Sigma\| \geq 4v(t/n)^{1/2}\} \leq 2p \exp(-t).$$

Given $\hat{\Sigma}_U$, we can construct an estimator of $B$ following Step 1 of the FarmTest procedure. Recall that $\hat{b}_1, \ldots, \hat{b}_p$ are the $p$ rows of $\hat{B}$. To investigate the consistency of $\hat{b}_j$'s, let
$\lambda_1, \ldots, \lambda_K$ be the top $K$ (nonzero) eigenvalues of $BB^T$ in a descending order and $v_1, \ldots, v_K$ be the corresponding eigenvectors. Under identification condition (2), we have $\lambda_\ell = \|b_\ell\|_2^2$ and $v_\ell = b_\ell/\|b_\ell\|_2$ for $\ell = 1, \ldots, K$.

**Assumption 2 (Pervasiveness).** There exist positive constants $c_1$, $c_2$ and $c_3$ such that $c_1p \leq \lambda_\ell - \lambda_{\ell+1} \leq c_2p$ for $\ell = 1, \ldots, K$ with $\lambda_{K+1} := 0$, and $\|\Sigma_\varepsilon\| \leq c_3 < \lambda_K$.

**Remark 2.** The pervasiveness condition is required for high dimensional spiked covariance model with the first several eigenvalues well separated and significantly larger than the rest. In particular, Assumption 2 requires the top $K$ eigenvalues grow linearly with the dimension $p$. The corresponding eigenvectors can therefore be consistently estimated as long as sample size diverges (Fan et al., 2013). This condition is widely assumed in the literature (Stock and Watson, 2002; Bai and Ng, 2002). The following proposition provides convergence rates of the robust estimators $\{\hat{\lambda}_\ell, \hat{v}_\ell\}_{\ell=1}^K$ under Assumption 2. The proof, which is given in Appendix D, is based on Weyl’s inequality and a useful variant of the Davis-Kahan theorem (Yu et al., 2015). We notice that some preceding works (Onatski, 2012; Shen et al., 2016; Wang and Fan, 2017) have provided similar results under a weaker pervasiveness assumption which allows $p/n \to \infty$ in any manner and the spiked eigenvalues $\{\lambda_\ell\}_{\ell=1}^K$ are allowed to grow slower than $p$ so long as $c_\ell = p/(n\lambda_\ell)$ is bounded.

**Proposition 2.** Under Assumption 2, we have

$$
\max_{1 \leq \ell \leq K} |\hat{\lambda}_\ell - \lambda_\ell| \leq \|\hat{\Sigma}_U - \Sigma\| + \|\Sigma_\varepsilon\| \quad \text{and} \quad (20)
$$

$$
\max_{1 \leq \ell \leq K} \|\hat{v}_\ell - v_\ell\|_2 \leq C p^{-1}(\|\hat{\Sigma}_U - \Sigma\| + \|\Sigma_\varepsilon\|), \quad (21)
$$

where $C > 0$ is a constant independent of $(n, p)$.

We now show the properties of estimated loading vectors and estimated residual variances $\{\hat{\sigma}_{ij}\}_{j=1}^p$ that are defined below (8).

**Theorem 3.** Suppose Assumption 1(iv) and Assumption 2 hold. Let $\tau = v_0/\omega_{n,p}$ with $v_0 \geq v/2$ for $v$ given in (19). Then, with probability at least $1 - 2n^{-1},$

$$
\max_{1 \leq j \leq p} \|\hat{b}_j - b_j\|_2 \leq C_1 \{v\sqrt{\log(np)} (np)^{-1/2} + p^{-1/2}\} \quad (22)
$$

16
as long as \( n \geq v^2 p^{-1} \log(np) \). In addition, if \( n \geq C_2 \log(np) \), \( \tau_j = a_j \omega_{n,p}, \tau_{jj} = a_{jj} \omega_{n,p} \) with \( a_j \geq \sigma_{jj}^{1/2}, a_{jj} \geq \text{var}(X_j^2)^{1/2} \), we have

\[
\max_{1 \leq j \leq p} |\hat{\sigma}_{\varepsilon,jj} - \sigma_{\varepsilon,jj}| \leq C_3 (v p^{-1/2} w_{n,p}^{-1} + p^{-1/2})
\]  

(23)

with probability greater than \( 1 - C_4 n^{-1} \). Here, \( C_1 - C_4 \) are positive constants that are independent of \( (n,p) \).

**Remark 3.** According to Theorem 3, the robustification parameters can be set as \( \tau_j = a_j \omega_{n,p} \) and \( \tau_{jj} = a_{jj} \omega_{n,p} \), where \( w_{n,p} \) is given in (14). In practice, the constants \( a_j \) and \( a_{jj} \) can be chosen by cross-validation.

### 3.2.2 Adaptive Huber covariance estimation

In this section, we adopt an estimator that was first considered in Fan et al. (2017). For every \( 1 \leq j \neq k \leq p \), we define the robust estimate \( \hat{\sigma}_{jk} \) of \( \sigma_{jk} = E(X_j X_k) - \mu_j \mu_k \) to be

\[
\hat{\sigma}_{jk} = \hat{\theta}_{jk} - \hat{\mu}_j \hat{\mu}_k \quad \text{with} \quad \hat{\theta}_{jk} = \arg \min_{\theta \in \mathbb{R}} \sum_{i=1}^{n} \ell_{\tau_{jk}}(X_{ij} X_{ik} - \theta),
\]  

(24)

where \( \tau_{jk} > 0 \) is a robustification parameter and \( \hat{\mu}_j \) is defined in (5). This yields the adaptive Huber covariance estimator \( \hat{\Sigma}_H = (\hat{\sigma}_{jk})_{1 \leq j,k \leq p} \). The dependence of \( \hat{\Sigma}_H \) on \( \{\tau_{jk} : 1 \leq j \leq k \leq p\} \) and \( \{\tau_j\}_{j=1}^{p} \) is assumed without displaying.

**Theorem 4.** Suppose Assumption 1(iv) and Assumption 2 hold. Let \( \tau_j = a_j \omega_{n,p}, \tau_{jk} = a_{jk} \omega_{n,p^2} \) with \( a_j \geq \sigma_{jj}^{1/2}, a_{jk} \geq \text{var}(X_j^2)^{1/2} \) for \( 1 \leq j, k \leq p \). Then, there exist positive constants \( C_1 - C_3 \) independent of \( (n,p) \) such that as long as \( n \geq C_1 \log(np) \),

\[
\max_{1 \leq j \leq p} \|\hat{b}_j - b_j\|_2 \leq C_2 (\omega_{n,p}^{-1} + p^{-1/2})
\]

and

\[
\max_{1 \leq j \leq p} |\hat{\sigma}_{\varepsilon,jj} - \sigma_{\varepsilon,jj}| \leq C_3 (\omega_{n,p}^{-1} + p^{-1/2})
\]

with probability greater than \( 1 - 4n^{-1} \), where \( w_{n,p} \) is given in (14).
3.3 Estimating realized factors

To make the oracle statistics $T_j$’s given in (12) usable, it remains to estimate $\hat{f}$. Since the loadings can be estimated in two different ways, let us first assume $B$ is given and treat it as an input variable.

Averaging the approximate factor model (1), we have $\bar{X} = \mu + B\bar{f} + \bar{\varepsilon}$, where $\bar{X} = (\bar{X}_1, \ldots, \bar{X}_p)^T = (1/n)\sum_{i=1}^n X_i$ and $\bar{\varepsilon} := (\bar{\varepsilon}_1, \ldots, \bar{\varepsilon}_p)^T = (1/n)\sum_{i=1}^n \varepsilon_i$. This leads to

$$\bar{X}_j = b_j^T\bar{f} + \mu_j + \bar{\varepsilon}_j, \quad j = 1, \ldots, p.$$  \hspace{1cm} (25)

Among all $\{\mu_j + \bar{\varepsilon}_j\}_{j=1}^p$, we may regard $\mu_j + \bar{\varepsilon}_j$ with $\mu_j \neq 0$ as outliers. Therefore, to achieve robustness, we estimate $\bar{f}$ by solving the following optimization problem:

$$\hat{f}(B) \in \arg \min_{f \in \mathbb{R}^K} \sum_{j=1}^p \ell_\gamma(\bar{X}_j - b_j^Tf), \hspace{1cm} (26)$$

where $\gamma = \gamma(n, p) > 0$ is a robustification parameter. Next, we define robust variance estimators $\hat{\sigma}_{\varepsilon,jj}$’s by

$$\hat{\sigma}_{\varepsilon,jj}(B) = \hat{\theta}_j - \hat{\mu}_j^2 - \|b_j\|^2_2 \text{ with } \hat{\theta}_j = \arg \min_{\theta \geq \hat{\mu}_j^2 + \|b_j\|^2_2} \sum_{i=1}^n \tau_{jj}(X_{ij}^2 - \theta),$$

where $\tau_{jj}$’s are robustification parameters and $\hat{\mu}_j$’s are as in (5). Plugging $\{\hat{\sigma}_{\varepsilon,jj}\}_{j=1}^p$ and $\hat{f}$ into (12), we obtain the following factor-adjusted test statistics

$$T_j(B) = \left\{ n \hat{\sigma}_{\varepsilon,jj}(B) \right\}^{1/2} \{\hat{\mu}_j - b_j^T\hat{f}(B)\}, \quad j = 1, \ldots, p.$$ \hspace{1cm} (27)

For a given threshold $z \geq 0$, the corresponding FDP is defined as

$$\text{FDP}(z; B) = V(z; B)/R(z; B),$$

where $V(z; B) = \sum_{j \in \mathcal{H}_0} I\{|T_j(B)| \geq z\}$ and $R(z; B) = \sum_{1 \leq j \leq p} I\{|T_j(B)| \geq z\}$. Similarly
to (13), we approximate \( FDP(z; B) \) by
\[
AFDP(z; B) = 2p_0 \Phi(-z)/R(z; B).
\]

For any \( z \geq 0 \), the approximate FDP \( AFDP(z; B) \) is computable except \( p_0 \), which can be either estimated (Storey, 2002) or upper bounded by \( p \). Albeit being slightly conservative, the latter proposal is accurate enough in the sparse setting.

Regarding the accuracy of \( AFDP(z; B) \) as an asymptotic approximation of \( FDP(z; B) \), we need to account for the statistical errors of \( \{\hat{\sigma}_{\epsilon,jj}(B)\}_{j=1}^p \) and \( \hat{f}(B) \). To this end, we make the following structural assumptions on \( \mu \) and \( B \).

**Assumption 3.** The idiosyncratic errors \( \epsilon_1, \ldots, \epsilon_p \) are mutually independent, and there exist constants \( c_l, c_u > 0 \) such that \( \lambda_{\min}(p^{-1}B^TB) \geq c_l \) and \( \|B\|_{\text{max}} \leq c_u \).

**Assumption 4 (Sparsity).** There exist constants \( C_\mu > 0 \) and \( c_\mu \in (0,1/2) \) such that \( \|\mu\|_\infty = \max_{1 \leq j \leq p} |\mu_j| \leq C_\mu \) and \( \|\mu\|_0 = \sum_{j=1}^p I(\mu_j \neq 0) \leq p^{1/2-c_\mu} \). Moreover, \( (n,p) \) satisfies that \( n \log(n) = o(p) \) as \( n,p \to \infty \).

The following proposition, which is of independent interest, reveals an exponential-type deviation inequality for \( \hat{f}(B) \) with a properly chosen \( \gamma > 0 \).

**Proposition 3.** Suppose that Assumption 3 holds. For any \( t > 0 \), the estimator \( \hat{f}(B) \) given in (26) with \( \gamma = \gamma_0(p/t)^{1/2} \) for \( \gamma_0 \geq \sigma_\epsilon := (p^{-1} \sum_{j=1}^p \sigma_{\epsilon,jj})^{1/2} \) satisfies that with probability greater than \( 1-(2eK+t)e^{-t} \),
\[
\|\hat{f}(B) - \bar{f}\|_2 \leq C_1\gamma_0(Kt)^{1/2}p^{-1/2}
\] (28)
as long as \( p \geq \max\{\|\mu\|_2^2/\sigma_\epsilon^2, (\|\mu\|_1/\sigma_\epsilon)^2t, C_2K^2t\} \), where \( C_1, C_2 > 0 \) are constants depending only on \( c_l, c_u \) in Assumption 3.

The convergence in probability of \( FDP(z; B) \) to \( AFDP(z; B) \) for any \( z \geq 0 \) is investigated in the following theorem.

**Theorem 5.** Suppose that Assumptions 1 (i)–(iv), Assumptions 3 and 4 hold. Let \( \tau_j = a_j \omega_{n,p}, \tau_{jj} = a_{jj} \omega_{n,p} \) with \( a_j \geq \sigma_{jj}^{1/2}, a_{jj} \geq \text{var}(X_j^2)^{1/2} \) for \( j = 1, \ldots, p \), and \( \gamma = \gamma_0\{p/\log(n)\}^{1/2} \) with \( \gamma_0 \geq \sigma_\epsilon \). Then, for any \( z \geq 0 \), \( |FDP(z; B) - AFDP(z; B)| = o_p(1) \) as \( n,p \to \infty \).
4 Simulation studies

4.1 Selecting robustification parameters

The robustification parameter involved in the Huber loss plays an important role in the proposed procedures both theoretically and empirically. In this section, we describe the use of cross-validation to calibrate robustification parameter in practice. To highlight the main idea, we restrict our attention to the mean estimation problem.

Suppose we observe \(n\) samples \(X_1, \ldots, X_n\) from \(X\) with mean \(\mu\). For any given \(\tau > 0\), the Huber estimator is defined as \(\hat{\mu}_\tau = \arg \min_{\theta \in \mathbb{R}} \sum_{i=1}^{n} \ell_\tau(X_i - \theta)\), or equivalently, the unique solution of the equation \(\sum_{i=1}^{n} \psi_\tau(X_i - \theta) = 0\). Our theoretical analysis suggests that the theoretically optimal \(\tau\) is of the form \(C_\sigma \omega_n\), where \(\omega_n\) is a specified function of \(n\) and \(C_\sigma > 0\) is a constant that scales with \(\sigma\), the standard deviation of \(X\). This allows us to narrow down the search range by selecting \(C\sigma\) instead via the \(K\)-fold \((K = 5\) or 10\) cross-validation as follows. First, we randomly divide the sample into \(K\) subsets, \(I_1, \ldots, I_K\), with roughly equal sizes. The cross-validation criterion for a given \(C > 0\) can be defined as

\[
CV(C) = \frac{1}{n} \sum_{k=1}^{K} \sum_{i \in I_k} (X_i - \hat{\mu}^{(-k)}_\tau)^2, \tag{29}
\]

where \(\hat{\mu}^{(-k)}_\tau\) is the Huber estimator using data not in the \(k\)-th fold, namely

\[
\hat{\mu}^{(-k)}_\tau = \arg \min_{\theta \in \mathbb{R}} \sum_{\ell=1, \ell \neq k}^{K} \sum_{i \in I_\ell} \ell_\tau(X_i - \theta),
\]

and \(\tau_C = C\omega_n\). In practice, let \(C\) be a set of grid points for \(C\). We choose \(C_\sigma\) and therefore \(\tau\) by \(\hat{C}_\sigma = \arg \min_{C \in C} CV(C)\) and \(\hat{\tau} = \hat{C}_\sigma \omega_n\).

The robustification parameters involved in the FarmTest procedure can be selected in a similar fashion by modifying the loss function and the cross-validation criterion (29) accordingly. The theoretical order \(\omega_n\) can be chosen as the rate that guarantees optimal bias-robustness tradeoff. Based on the theoretical results in Section 3, we summarize the optimal rates for various robustification parameters in Table 1. Robust estimation of \(\mu_j\)'s and the adaptive Huber covariance estimator involve multiple robustification parameters. If
$X_1, \ldots, X_p$ are homoscedastic, it is reasonable to assume $\tau_j = \tau_\mu$ in (5) for all $j = 1, \ldots, p$. Then we can choose $\tau_\mu$ by applying the cross-validation over a small subset of the covariates $X_1, \ldots, X_p$. Similarly, we can set $\tau_{j,k} = \tau_\Sigma$ in (24) for all $j, k$ and calibrate $\tau_\Sigma$ by applying the cross-validation over a subset of the entries.

<table>
<thead>
<tr>
<th>Estimator</th>
<th>Parameter</th>
<th>Optimal Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Robust estimator of $\mu_j$</td>
<td>$\tau_j$ in (5)</td>
<td>$\sqrt{n/\log(np)}$</td>
</tr>
<tr>
<td>$U$-type covariance estimator</td>
<td>$\tau$ in (18)</td>
<td>$p\sqrt{n/\log(p)}$</td>
</tr>
<tr>
<td>Adaptive Huber covariance estimator</td>
<td>$\tau_{j,k}$ in (24)</td>
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<tr>
<td>Robust estimator of $\bar{f}$</td>
<td>$\gamma$ in (26)</td>
<td>$\sqrt{p/\log(n)}$</td>
</tr>
</tbody>
</table>

### 4.2 Settings

In the simulation studies, we take $(p_1, p) = (25, 500)$ so that $\pi_1 = p_1/p = 0.05$, $n \in \{100, 150, 200\}$ and use $t = 0.01$ as the threshold value for $P$-values. Moreover, we set the mean vector $\mu = (\mu_1, \ldots, \mu_p)^T$ to be $\mu_j = 0.5$ for $1 \leq j \leq 25$ and $\mu_j = 0$ otherwise. We repeat 1000 replications in each of the scenarios below. The robustifications parameters are selected by five-fold cross-validation under the guidance of their theoretically optimal orders. The data-generating processes are as follows.

**Model 1: Normal factor model.** Consider a three-factor model $X_i = \mu + Bf_i + \varepsilon_i$, $i = 1, \ldots, n$, where $f_i \sim \mathcal{N}(0, I_3)$, $B = (b_{jk})_{1 \leq j \leq p, 1 \leq k \leq 3}$ has IID entries $b_{jk}$’s generated from the uniform distribution $\mathcal{U}(-2, 2)$.

**Model 2: Synthetic factor model.** Consider a similar three-factor model as in Model 1, except that $f_i$’s and $b_j$’s are generated independently from $\mathcal{N}(0, \Sigma_f)$ and $\mathcal{N}(\mu_B, \Sigma_B)$, respectively, where $\Sigma_f$, $\mu_B$ and $\Sigma_B$ are calibrated from the daily returns of S&P 500’s top 100 constituents (ranked by the market cap) between July 1st, 2008 and June 29th, 2012.

**Model 3: Serial dependent factor model.** Consider a similar three-factor model as in Model 1, except that $f_i$’s are generated from a stationary VAR(1) model $f_i = \Pi f_{i-1} + \xi_i$.
for $i = 1, \ldots, n$, with $f_0 = 0$ and $\xi_i$'s IID drawn from $\mathcal{N}(0, I_3)$. The $(j, k)$-th entry of $\Pi$ is set to be 0.5 when $j = k$ and $0.4|j-k|$ otherwise.

The idiosyncratic errors in these three models are generated from one of the following four distributions. Let $\Sigma_\varepsilon$ be a sparse matrix whose diagonal entries are 3 and off-diagonal entries are drawn from IID $0.3 \times \text{Bernoulli}(0.05)$;

1. Multivariate normal distribution $\mathcal{N}(0, \Sigma_\varepsilon)$;
2. Multivariate $t$-distribution $t_3(0, \Sigma_\varepsilon)$ with 3 degrees of freedom;
3. IID Gamma distribution with shape parameter 3 and scale parameter 1;
4. IID re-scaled log-normal distribution $a\{\exp(1 + 1.2Z) - b\}$, where $Z \sim \mathcal{N}(0, 1)$ and $a, b > 0$ are chosen such that it has mean zero and variance 3.

### 4.3 FDP estimation

In our robust testing procedure, the covariance matrix is either estimated by the entry-wise adaptive Huber method or by the $U$-type robust covariance estimator. The corresponding tests are labeled as FARM-H and FARM-U, respectively.

In this section, we compare FARM-H and FARM-U with three existing non-robust tests. The first one is a factor-adjusted procedure using the sample mean and sample covariance matrix, denoted by FAM. The second one is the PFA method, short for principal factor approximation, proposed by Fan and Han (2017). In contrast to FAM, PFA directly uses the unadjusted test statistics and only accounts for the effect of latent factors in FDP estimation. The third non-robust procedure is the Naive method, which completely ignores the factor dependence.

We first examine the accuracy of FDP estimation, which is assessed by the median of the relative absolute error (RAE) between the estimated FDP and $\text{FDP}_{orc}(t)$ := $\frac{\sum_{i \in \mathcal{I}_0} I(T_{ij} \leq t)}{\max(1, \sum_{j=1} I(T_j \leq t))}$, where $P_j = 2\Phi(-|T^O_j|)$ and $T^O_j$ are the oracle test statistics given in (12). For a given threshold value $t$, RAE for $k$th simulation is defined as

$$\text{RAE}(k) = |\hat{\text{FDP}}(t, k) - \text{FDP}_{orc}(t, k)|/\text{FDP}_{orc}(t, k), \quad k = 1, \ldots, 1000,$$
where $\hat{FDP}(t, k)$ is the estimated FDP in the $k$th simulation using one of the five competing methods and $FDP_{orc}(t, k)$ is the oracle FDP in the $k$th experiment. The median of RAEs are presented in Table 2. We see that, although the PFA and FAM methods achieve the smallest estimation errors in the normal case, FARM-H and FARM-U perform comparably well. In other words, a high level of efficiency is achieved if the underlying distribution is normal. The Naive method performs worst as it ignores the impact of the latent factors. In heavy-tailed cases, both FARM-H and FARM-U outperform the non-robust competitors by a wide margin, still with the Naive method being the least favorable. In summary, the proposed methods achieve high degree of robustness against heavy-tailed errors, while losing little or no efficiency under normality.

### 4.4 Power performance

In this section, we compare the powers of the five methods under consideration. The empirical power is defined as the average ratio between the number of correct rejections and $p_1$. The results are displayed in Table 3. In the normal case, FAM has a higher power than PFA. This is because FAM adjusts the effect of latent factors for each individual hypothesis so that the signal-to-noise ratio is higher. Again, both FARM-H and FARM-U tests only pay a negligible price in power under normality. In heavy-tailed cases, however, these two robust methods achieve much higher empirical powers than their non-robust counterparts. Moreover, to illustrate the relationship between the empirical power and signal strength, Figure 3 displays the empirical power versus signal strength ranging from 0.1 to 0.8 for Model 1 with $(n, p) = (200, 500)$ and $t_3$-distributed errors.

### 4.5 FDP/FDR control

In this section, we compare the numerical performance of the five tests in respect of FDP/FDR control. We take $p = 500$ and let $n$ gradually increase from 100 to 200. The empirical FDP is defined as the average false discovery proportion based on 200 simulations. At the prespecified level $\alpha = 0.05$, Figure 4 displays the empirical FDP versus the sample size under Model 1. In the normal case, all the four factor-adjusted tests, FARM-H, FARM-U, FAM and PFA, have empirical FDPs controlled around or under $\alpha$. For heavy-
Table 2: Median relative absolute error between estimated and oracle FDP

<table>
<thead>
<tr>
<th>$\varepsilon_i$</th>
<th>$n$</th>
<th>$FARM-H$</th>
<th>$FARM-U$</th>
<th>$FAM$</th>
<th>$PFA$</th>
<th>Naive</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>100</td>
<td>0.8042</td>
<td>0.8063</td>
<td>0.7716</td>
<td>0.7487</td>
<td>1.789</td>
</tr>
<tr>
<td>Normal</td>
<td>150</td>
<td>0.7902</td>
<td>0.7925</td>
<td>0.7467</td>
<td>0.7790</td>
<td>1.609</td>
</tr>
<tr>
<td></td>
<td>200</td>
<td>0.7665</td>
<td>0.7743</td>
<td>0.7437</td>
<td>0.7363</td>
<td>1.538</td>
</tr>
<tr>
<td>$t_3$</td>
<td>100</td>
<td>0.7047</td>
<td>0.7539</td>
<td>1.3894</td>
<td>1.4676</td>
<td>2.061</td>
</tr>
<tr>
<td></td>
<td>150</td>
<td>0.6817</td>
<td>0.6002</td>
<td>1.1542</td>
<td>1.2490</td>
<td>1.801</td>
</tr>
<tr>
<td></td>
<td>200</td>
<td>0.6780</td>
<td>0.5244</td>
<td>0.9954</td>
<td>1.1306</td>
<td>1.579</td>
</tr>
<tr>
<td>Gamma</td>
<td>100</td>
<td>0.7034</td>
<td>0.7419</td>
<td>1.4986</td>
<td>1.7028</td>
<td>3.299</td>
</tr>
<tr>
<td></td>
<td>150</td>
<td>0.6844</td>
<td>0.6869</td>
<td>1.4396</td>
<td>1.5263</td>
<td>2.844</td>
</tr>
<tr>
<td></td>
<td>200</td>
<td>0.6393</td>
<td>0.6446</td>
<td>1.3911</td>
<td>1.4563</td>
<td>2.041</td>
</tr>
<tr>
<td>LN</td>
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<td>0.6943</td>
<td>0.7104</td>
<td>1.5629</td>
<td>1.7255</td>
<td>3.292</td>
</tr>
<tr>
<td></td>
<td>150</td>
<td>0.6487</td>
<td>0.6712</td>
<td>1.6128</td>
<td>1.7742</td>
<td>3.092</td>
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<tr>
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<td>200</td>
<td>0.6137</td>
<td>0.6469</td>
<td>1.4476</td>
<td>1.4927</td>
<td>2.510</td>
</tr>
</tbody>
</table>

Model 2

|                 | 100 | 0.6804   | 0.7079   | 0.6195 | 0.6318 | 1.676 |
| Normal          | 150 | 0.6928   | 0.6873   | 0.6302 | 0.6136 | 1.573 |
|                 | 200 | 0.6847   | 0.6798   | 0.6037 | 0.6225 | 1.558 |
| $t_3$           | 100 | 0.6438   | 0.6641   | 1.3939 | 1.4837 | 2.206 |
|                 | 150 | 0.6258   | 0.6466   | 1.2324 | 1.2902 | 1.839 |
|                 | 200 | 0.6002   | 0.6245   | 1.0368 | 1.0811 | 1.481 |
| Gamma           | 100 | 0.6404   | 0.6493   | 1.6743 | 1.7517 | 3.129 |
|                 | 150 | 0.5979   | 0.5991   | 1.3618 | 1.4405 | 2.657 |
|                 | 200 | 0.5688   | 0.5746   | 1.0803 | 1.1595 | 2.035 |
| LN              | 100 | 0.7369   | 0.7793   | 2.0622 | 2.0427 | 3.664 |
|                 | 150 | 0.6021   | 0.6122   | 1.7935 | 1.8796 | 3.056 |
|                 | 200 | 0.5557   | 0.5588   | 1.6304 | 1.8059 | 2.504 |

Model 3

|                 | 100 | 0.7937   | 0.8038   | 0.7338 | 0.7651 | 1.991 |
| Normal          | 150 | 0.7617   | 0.7750   | 0.7415 | 0.7565 | 1.888 |
|                 | 200 | 0.7544   | 0.7581   | 0.7428 | 0.7440 | 1.858 |
| $t_3$           | 100 | 0.7589   | 0.7397   | 1.4302 | 1.6053 | 2.105 |
|                 | 150 | 0.6981   | 0.7010   | 1.2980 | 1.3397 | 1.956 |
|                 | 200 | 0.6596   | 0.6846   | 1.1812 | 1.1701 | 1.847 |
| Gamma           | 100 | 0.7134   | 0.7391   | 1.7585 | 1.9981 | 3.945 |
|                 | 150 | 0.6609   | 0.6744   | 1.5449 | 1.7437 | 3.039 |
|                 | 200 | 0.6613   | 0.6625   | 1.4650 | 1.4869 | 2.295 |
| LN              | 100 | 0.7505   | 0.7330   | 1.8019 | 1.9121 | 3.830 |
|                 | 150 | 0.6658   | 0.7015   | 1.7063 | 1.7669 | 3.278 |
|                 | 200 | 0.6297   | 0.6343   | 1.5944 | 1.6304 | 2.937 |

tailed data, $FARM-H$ and $FARM-U$ manage to control the empirical FDP under $\alpha$ for varying sample sizes; while $FAM$ and $PFA$ lead to much higher empirical FDPs, indicating more false discoveries. This phenomenon is in accord with our intuition that outliers can sometimes be mistakenly regarded as discoveries. The Naive method performs worst throughout all models and settings. Due to limitations of space, numerical results for Models 2 and 3 are given in Appendix E of the online supplement.
Table 3: Empirical powers

<table>
<thead>
<tr>
<th>$\varepsilon_i$</th>
<th>n</th>
<th>$p = 500$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>FARM-H</td>
</tr>
<tr>
<td><strong>Model 1</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Normal</td>
<td>100</td>
<td>0.853</td>
</tr>
<tr>
<td></td>
<td>150</td>
<td>0.877</td>
</tr>
<tr>
<td></td>
<td>200</td>
<td>0.909</td>
</tr>
<tr>
<td>$t_3$</td>
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<td>0.816</td>
</tr>
<tr>
<td></td>
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<td>0.828</td>
</tr>
<tr>
<td></td>
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<td>0.894</td>
</tr>
<tr>
<td>Gamma</td>
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<tr>
<td></td>
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</tr>
<tr>
<td></td>
<td>200</td>
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</tr>
<tr>
<td>LN</td>
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<td>0.798</td>
</tr>
<tr>
<td></td>
<td>150</td>
<td>0.817</td>
</tr>
<tr>
<td></td>
<td>200</td>
<td>0.844</td>
</tr>
<tr>
<td><strong>Model 2</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Normal</td>
<td>100</td>
<td>0.801</td>
</tr>
<tr>
<td></td>
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</tr>
<tr>
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<td>Gamma</td>
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<tr>
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<tr>
<td></td>
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<td></td>
<td>200</td>
<td>0.826</td>
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<tr>
<td><strong>Model 3</strong></td>
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<td></td>
</tr>
<tr>
<td>Normal</td>
<td>100</td>
<td>0.837</td>
</tr>
<tr>
<td></td>
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<td>0.856</td>
</tr>
<tr>
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<td>200</td>
<td>0.875</td>
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<tr>
<td>$t_3$</td>
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<td></td>
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<td>0.818</td>
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<tr>
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</tr>
<tr>
<td></td>
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</tr>
</tbody>
</table>

5 Real data analysis

Oberthuer et al. (2006) analyzed the German Neuroblastoma Trials NB90-NB2004 (diagnosed between 1989 and 2004) and developed a gene expression based classifier. For 246 neuroblastoma patients, gene expressions over 10,707 probe sites were measured. The binary response variable is the 3-year event-free survival information of the patients (56 positive and 190 negative). We refer to Oberthuer et al. (2006) for a detailed description of the
Figure 3: Empirical power versus signal strength. The data are generated from Model 1 with \((n, p) = (200, 500)\) and \(t_3\)-distributed noise.

dataset. In this study, we divide the data into two groups, one with positive responses and the other with negative responses, and test the equality of gene expression levels at all the 10,707 probe sites simultaneously. To that end, we generalize the proposed FarmTest to the two-sample case by defining the following two-sample \(t\)-type statistics

\[
T_j = \frac{(\hat{\mu}_{1j} - \hat{b}_{1j}^T \hat{f}_1) - (\hat{\mu}_{2j} - \hat{b}_{2j}^T \hat{f}_2)}{(\hat{\sigma}_{1\epsilon, jj}/56 + \hat{\sigma}_{2\epsilon, jj}/190)^{1/2}}, \quad j = 1, \ldots, 10707,
\]

where the subscripts 1 and 2 correspond to the positive and negative groups, respectively. Specifically, \(\hat{\mu}_{1j}\) and \(\hat{\mu}_{2j}\) are the robust mean estimators obtained from minimizing the empirical Huber risk (5), and \(\hat{b}_{1j}, \hat{b}_{2j}, \hat{f}_1,\) and \(\hat{f}_2\) are robust estimators of the factors and loadings based on the \(U\)-type covariance estimator. In addition, \(\hat{\sigma}_{1\epsilon, jj}\) and \(\hat{\sigma}_{2\epsilon, jj}\) are the variance estimators defined in (27). As before, the robustification parameters are selected via five-fold cross-validation with their theoretically optimal orders taking into account.

We use the eigenvalue ratio method (Lam and Yao, 2012; Ahn and Horenstein, 2013) to determine the number of factors. Let \(\lambda_k(\hat{\Sigma})\) be the \(k\)-th largest eigenvalue of \(\hat{\Sigma}\) and \(K_{\text{max}}\) a prespecified upper bound. The number of factors can then be estimated by

\[
\hat{K} = \arg \max_{1 \leq k \leq K_{\text{max}}} \lambda_k(\hat{\Sigma})/\lambda_{k+1}(\hat{\Sigma}).
\]

The eigenvalue ratio method suggests \(K = 4\) for both positive and negative groups. Figure 5
Figure 4: Empirical FDP versus sample size for the five tests at level $\alpha = 0.05$. The data are generated from Model 1 with $p = 500$ and sample size $n$ ranging from 100 to 200 with a step size of 10. The panels from top to bottom correspond to the four error distributions in Section 4.2.
Figure 5: **Scree plots for positive and negative groups.** The bars represent the proportion of variance explained by the top 20 principal components. The dots represent the corresponding eigenvalues in descending order.

depicts scree plots of the top 20 eigenvalues for each group. The gene expressions in both groups are highly correlated. As an evidence, the top 4 principal components (PCs) explain 42.6% and 33.3% of the total variance for the positive and negative groups, respectively.

To demonstrate the importance of the factor-adjustment procedure, for each group, we plot the correlation matrices of the first 100 gene expressions before and after adjusting the top 4 PCs; see Figure 6. The blue and red pixels in Figure 6 represent the pairs of gene expressions whose absolute correlations are greater than 1/3. Therefore, after adjusting the top 4 PCs, the number of off-diagonal entries with strong correlations is significantly reduced in both groups. To be more specific, the number drops from 1452 to 666 for the positive group and from 848 to 414 for the negative group.

Another stylized feature of the data is that distributions of many gene expressions are heavy-tailed. To see this, we plot histograms of the excess kurtosis of the gene expressions in Figure 7. The left panel of the Figure 7 shows that 6518 gene expressions have positive excess kurtosis with 420 of them greater than 6. In other words, more than 60% of the gene expressions in the positive group have tails heavier than the normal distribution and about 4% are severely heavy tailed as their tails are fatter than the $t$-distribution with 5 degrees of freedom. Similarly, in the negative group, 9341 gene expressions exhibit positive excess kurtosis with 671 of them greater than 6. Such a heavy-tailed feature indicates the necessity of using robust methods to estimate the mean and covariance of the data.
Figure 6: Correlations among the first 100 genes before and after factor-adjustment. The pixel plots are the correlation matrices of the first 100 gene expressions. In the plots, the blue pixels represent the entries with correlation greater than $1/3$ and the red pixels represent the entries with correlation smaller than $-1/3$.

We apply four tests, the two-sample FARM-H and FARM-U, the FAM test and the naive method, to this dataset. At level $\alpha = 0.01$, the two-sample FARM-H and FARM-U methods identify, respectively, 3912 and 3855 probes with different gene expressions, among which 3762 probes are identical. This shows an approximately 97% similarity in the two methods. The FAM and naive methods discover 3509 and 3236 probes, respectively. For this dataset,
accounting for latent factor dependence indeed leads to different statistical conclusions. This visible discrepancy between the two robust methods and FAM highlights the importance of robustness and reflects the difference in power of detecting differently expressed probes. The effectiveness of factor adjustment is also highlighted in the discovery of significant genes.

6 Discussion and extensions

In this paper, we have developed a factor-adjusted multiple testing procedure (FarmTest) for large-scale simultaneous inference with dependent and heavy-tailed data, the key of which lies in a robust estimate of the false discovery proportion. The procedure has two attractive features: First, it incorporates dependence information to construct marginal test statistics. Intuitively, subtracting common factors out leads to higher signal-to-noise ratios, and therefore makes the resulting FDP control procedure more efficient and powerful. Second, to achieve robustness against heavy-tailed errors that may also be asymmetric, we used the adaptive Huber regression method (Fan et al., 2017; Zhou et al., 2018) to estimate the realized factors, factor loadings and variances. We believe that these two properties will have further applications to higher criticism for detecting sparse signals with dependent and non-Gaussian data; see Delaigle et al. (2011) for the independent case.

In other situations, it may be more instructive to consider the mixed effects regression modeling of the data (Friguet et al., 2009; Wang et al., 2017), that is, $X_j = \mu_j + \beta_j^T Z + \epsilon_j$.
for $j = 1, \ldots, p$, where $Z \in \mathbb{R}^q$ is a vector of explanatory variables (e.g., treatment-control, phenotype, health trait), $\beta_j$’s are $q \times 1$ vectors of unknown slope coefficients, and $f$, $b_j$’s and $\varepsilon_j$’s have the same meanings as in (1). Suppose we observe independent samples $(X_1, Z_1), \ldots, (X_n, Z_n)$ from $(X, Z)$ satisfying

$$X_i = \mu + \Theta Z_i + B f_i + \varepsilon_i, \ i = 1, \ldots, n,$$

where $\Theta = (\beta_1, \ldots, \beta_p)^T \in \mathbb{R}^{p \times q}$. In this case, we have $E(X_i|Z_i) = \mu + \Theta Z_i$ and $\text{cov}(X_i|Z_i) = B \Sigma f B^T + \Sigma \varepsilon$. The main issue in extending our methodology to such a mixed effects model is the estimation of $\Theta$. For this, we construct robust estimators $(\hat{\mu}_j, \hat{\beta}_j)$ of $(\mu_j, \beta_j)$, defined as

$$(\hat{\mu}_j, \hat{\beta}_j) \in \arg \min_{\mu \in \mathbb{R}, \beta_j \in \mathbb{R}^q} \sum_{i=1}^{n} \ell_{\tau_j}(X_{ij} - \mu - \beta_j^T Z_i), \ 1 \leq j \leq p,$$

where $\tau_j$’s are robustification parameters. Taking $\hat{\Theta} = (\hat{\beta}_1, \ldots, \hat{\beta}_p)^T$, the FarmTest procedure in Section 2.2 can be directly applied with $\{X_i\}_{i=1}^{n}$ replaced by $\{X_i - \hat{\Theta} Z_i\}_{i=1}^{n}$. However, because $\hat{\Theta}$ depends on $\{(X_i, Z_i)\}_{i=1}^{n}$, the adjusted data $X_1 - \hat{\Theta} Z_1, \ldots, X_n - \hat{\Theta} Z_n$ are no longer independent, which causes the main difficulty of extending the established theory in Section 3 to the current setting. One way to bypass this issue and to facilitate the theoretical analysis is the use of sample splitting as discussed in Appendix A of the online supplement. The FarmTest procedure for mixed effects models was also implemented in the R-package FarmTest (https://cran.r-project.org/web/packages/FarmTest).

References


Oberthuer, A., Berthold, F., Warnat, P., Hero, B., Kahler, Y., Spitz, R.,


