JOURNAL ARTICLE

Fact and Fiction About Low-Risk Investing

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Low-risk investing within equities and other asset classes has received a lot of attention over the past decade. An intensive academic debate has spurred, and been spurred by, the growing market for low-risk strategies. This article presents five fact and dispels five fictions about low-risk investing. The facts are: Low-risk returns have been

1. strong historically,
2. highly significant out-of-sample,
3. robust across many countries and asset classes, and
4. backed by strong economic theory, but, nevertheless,
5. can be negative when the market is down.

The fictions that this article dispels are that low-risk investing

1. delivers weaker returns than other common factor premia,
2. is mostly about betting on bond-like industries,
3. is especially sensitive to transaction costs and only works among small-cap stocks, and
4. have become so expensive that they cannot do well going forward. Lastly, the article dispels the fiction
5. that CAPM is dead and so is low-risk investing – this statement is a contradiction; If the CAPM is dead, then low-risk investing is alive.