Cliff's Perspective

Risk Parity: The Dog That Did Not Bite

September 21, 2015

Following August equity market volatility, commentators have been lining up to blame risk parity as a driving force behind that volatility. As I've said before: I can't define short-term silliness, but like Justice Stewart I can identify short-term silliness when I see it. This recent rush to use risk parity as a pin cushion is just another case of such silliness.

Some colleagues who lead our risk parity strategies here at AQR explain. Why isn't risk parity the cause? Well, we believe risk parity simply isn't big enough to generate the level of trading necessary to create very large market gyrations and most certainly not to the degree witnessed recently.

A more parsimonious explanation, though I'd agree a far less newsworthy one, is simply that investors got more negative on economic fundamentals in August and re-priced assets and rebalanced their portfolios accordingly. I guess that's a more boring story than "Risk parity man bites market"...

To read other posts by Cliff Asness or to subscribe to future posts, please visit www.aqr.com/cliffs-perspective