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.

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