F A C T O R / S T Y L E I N V E S T I N G

Low-Risk Investing Without Industry Bets

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The strategy of buying safe low-beta stocks while shorting (or underweighting) riskier high-beta stocks has been shown to deliver significant risk-adjusted returns. However, it has been suggested that such “low-risk investing” delivers high returns primarily due to its industry bet, favoring a slowly changing set of stodgy, stable industries and disliking their opposites. We refute this.

In this paper, we show that a betting against beta (BAB) strategy has delivered positive returns both as an industry-neutral bet within each industry and as a pure bet across industries. In fact, the industry-neutral BAB strategy has performed stronger than the BAB strategy that only bets across industries and it has delivered positive returns in each of 49 U.S. industries and in 61 of 70 global industries. Putting together those industries leads to an aggregate industry-neutral BAB factor that performs very strongly — alone or versus the four-factor model. Moreover, the regular BAB factor is in fact more dependent on the industry-neutral stock selection than on industry selection.

Our findings are consistent with the leverage aversion theory for why low-beta investing is effective.

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