



## Minimum Volatility “Smart Beta” ETFs Widely Outperform During ‘Brexit’



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When it comes to investing, if “Smart Beta” is not yet a household name it’s about to be. “Smart Beta” has been a craze that’s swept index-based investors off their feet for the ability to use single or multiple factors to tilt a portfolio away from the largest stocks in a particular index, known as capitalization weighting.

More specifically, low volatility investing, a sub-set of “Smart Beta” which involves investing in stocks that move up and down less than the overall market are 2016’s hottest trend. According to data compiled by Bloomberg through June 17th, flows into low volatility exchange-traded funds (ETFs) have topped \$13 Billion in 2016, and now stand at nearly \$40 Billion in totality.

One particular low volatility strategy, known as minimum volatility investing has stood out more than others this year, especially in the aftermath of ‘Brexit’. Minimum volatility investing takes an optimization based approach that incorporates equity correlations, or the relationship between individual stocks, when constructing a portfolio designed to be less volatile than the overall market. This compares to low volatility investing which simply takes the least volatile stocks and weights them by their market betas.

The iShares Edge MSCI USA Min Vol ETF (ticker: USMV) with nearly \$14 Billion in assets under management offers exposure to U.S. large cap stocks but with potentially less risk than the overall market. Furthermore, over a market cycle (typically 5-7 years), minimum volatility investing has proven to reduce volatility by up to 15-20% by smoothing out the peaks and troughs of market tops and bottoms.

Through Monday June 27th, minimum volatility investing in the U.S. through an investment in USMV has returned a +6.98% total return, compared to a -1.08% total return for the SPDR S&P 500 ETF (ticker: SPY) for a performance differential of +8.06%. Furthermore, investors in USMV fared considerably better during the ‘Brexit’ situation on Friday June 24th and the aftermath that followed on Monday June 27th. Over that two-day stretch, USMV again outperformed SPY by falling less than the overall market. USMV lost -2.25% during that two-day stretch, compared to -5.32% for the overall market (SPY), for a performance savings of +3.07%!

While minimum volatility investing may lag the overall market in times of market euphoria, it can be a valuable tool for long term investors seeking to manage risk, and to those who cannot stomach severe market downturns. Moreover, minimum volatility investing has proven to be an effective risk management tool in other areas of the world as well such as international and emerging market equities, with similar results as the market leading USMV.

For more information or questions, please contact Amy Fogle at 716-633-3800.

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