

HQ Asset Management

Stock selection

HQAM factor of the month: Low Volatility

August 2021

Low volatility - patterns change constantly

With the Low Volatility factor, investors buy the stocks with the lowest volatility every month.

The hedging character of the strategy is impressive over long periods of time: If the stock market falls, the low volatility strategy usually loses less. In phases of rising stock markets, it usually wins by a similar amount - or just slightly less. Investors therefore like to use the little fluctuating stocks as protection against falling markets.

If the stock market is divided into rising and falling phases for the last 20 years, the following average annualized monthly performance results:

Stock market regime	Stock market performance	Low-Volatility-Strategy Outperformance
rising stock market	19,1 %	-3,1 %
falling stock market	-29,8 %	12,5 %

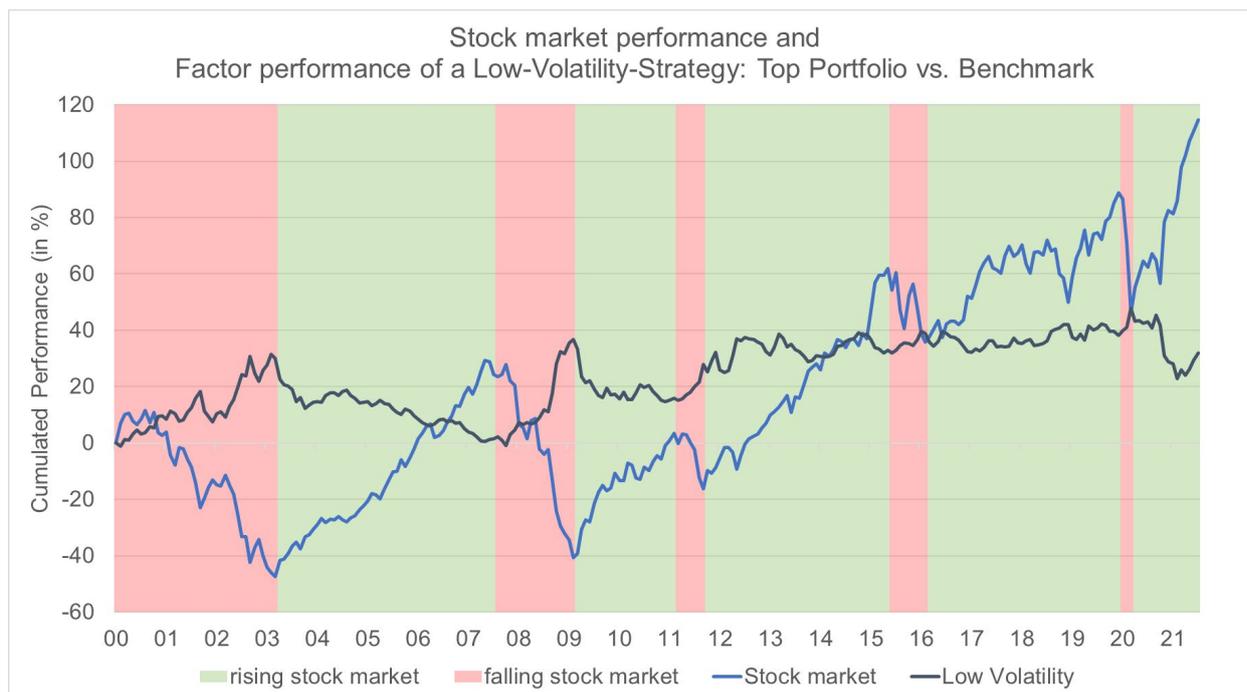
The problem

Investors cannot always rely on this rule of thumb: Low volatility stocks provided decent protection in the falling stock markets of 2000-2003 and 2008-2009. Since the beginning of 2020, however, there have been three peculiarities to be observed.

- The idea of protection was kept within limits during the Corona crash in February / March 2020.
- During the upswing in summer 2020, the low volatility strategy grew significantly less than the market as a whole.
- In the past few months, the low volatility strategy has been gaining ground relative to the stock market, even though the markets themselves have risen sharply.

The solution

- Even if some strategies always seem to work: The financial markets are dynamic and complex, patterns change constantly.
- The low volatility factor is regularly an important factor in our European stock selection strategy - but only one of many and not always.
- With our dynamic AI, we can recognize and exploit new laws in the markets.



Sources: HQAM, S&P Capital IQ. The analysis refers to the European equity universe (MSCI Europe, excluding financials); The factors are calculated monthly based on the 252 days volatility of each company; The top portfolio is defined as the 10% companies with the lowest value; The factor is calculated on a monthly basis, adjusted for sector effects; The calculation period runs from November 30, 1999 to July 31, 2021. The companies in the portfolios are equally weighted; The excess return is calculated against the equally weighted universe of stocks.

To the background:

It's no secret that favorites change on the stock exchange - sometimes stocks with a low P / E ratio are in demand, sometimes with high dividends, sometimes small and sometimes large caps. HQ Asset Management (HQAM) deals very intensively with such factors. As part of the research process, HQAM uses artificial intelligence to analyze around 200 factors every month and determine which have been able to best explain the price development of the individual stocks recently - and should continue to do so.

The research team analyzes one of these factors under the heading "HQAM factor of the month". The experts at HQ Asset Management explain the background and context and point out special features that can support investors in putting their portfolio together.

To HQAM:

HQAM is one of the financial service providers of the Harald Quandt family. The company offers a clear focus on quantitative asset management for institutional and semi-institutional investors. As the next generation asset manager, HQAM relies on the use of modern technology, alternative data and methods of artificial intelligence when making investment decisions.

Please note:

Investing assets in the capital markets is associated with risks and in extreme cases can lead to the loss of all of the capital invested. Past performance is not an indicator of future performance. Forecasts are also not reliable in terms of future performance. The representation is not investment, legal and / or tax advice. All content on our website is for informational purposes only.



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