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Low Volatility ETFs

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A recent trend is the development of low volatility funds, including both ETFs and mutual. These funds invest in a subset of a specified index, selecting only those stocks with low price volatility (which may be identified by a low beta). There is not sufficient history to gauge the performance of such funds, but two issues are worth noting. First, given the impact of volatility on compounded returns (i.e., geometric averages are lower than arithmetic averages), low volatility funds should have an advantage, particularly in otherwise volatile markets. Second, value funds may outperform over long periods (albeit not every period), and since value stocks are more likely to be low volatility, this may play a role in the performance. (See article here, Schwab.)

Related Chapters: Chapter 01, Chapter 04, Chapter 12