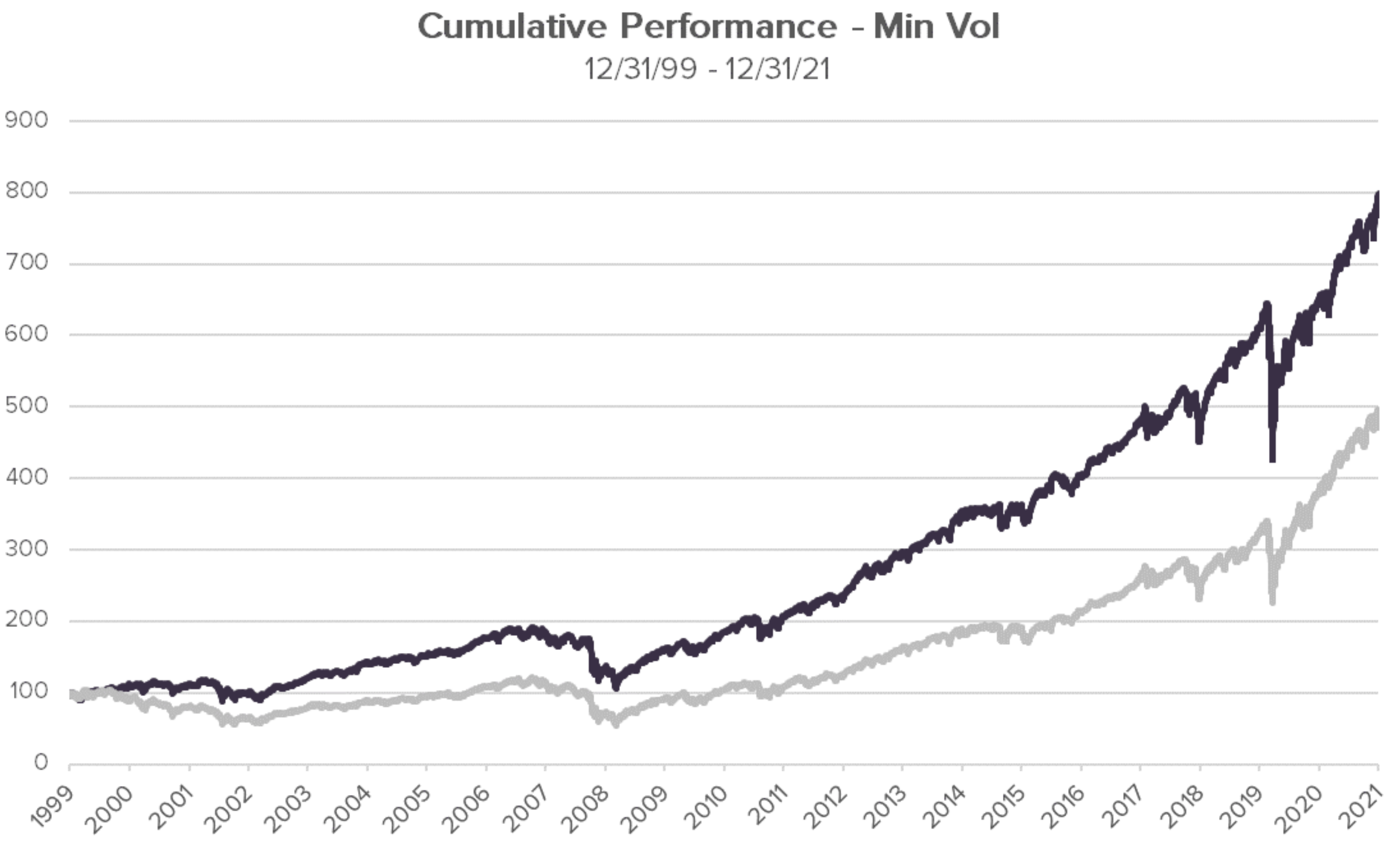
The Min Vol Factor
Strengths and Weakness of Minimum Volatility Strategies

A Distinctive Investment Factor

Low or minimum volatility ("Min Vol") investment strategies share similar risk and return characteristics. Strategies that select securities based on factors designed to minimize volatility deliver return streams that are distinct from the broader market, as defined by the S&P 500®. These similarities make Min Vol a distinct factor like small cap, large cap, growth or value. The ASYM Min Vol Composite was created to aid in the analysis of the Min Vol Factor. The composite consists of five minimum volatility indexes, which are tracked by ETFs. This whitepaper will examine the strengths and weaknesses of the Min Vol Factor.

Significant Outperformance

The Min Vol Factor defies a key investing principle that states the higher risk, the higher the potential return. The ASYM Min Vol Composite produced cumulative returns of 698%[1] from 12/31/99 through 12/31/21. This compares to the S&P 500®, which generated cumulative returns of 394% over the same period (refer to the chart below). The cumulative return of Min Vol Composite was 61% greater than the S&P 500®. Significant outperformance is one of the strengths of the Min Vol Factor.



Source: ASYMmetric and Bloomberg

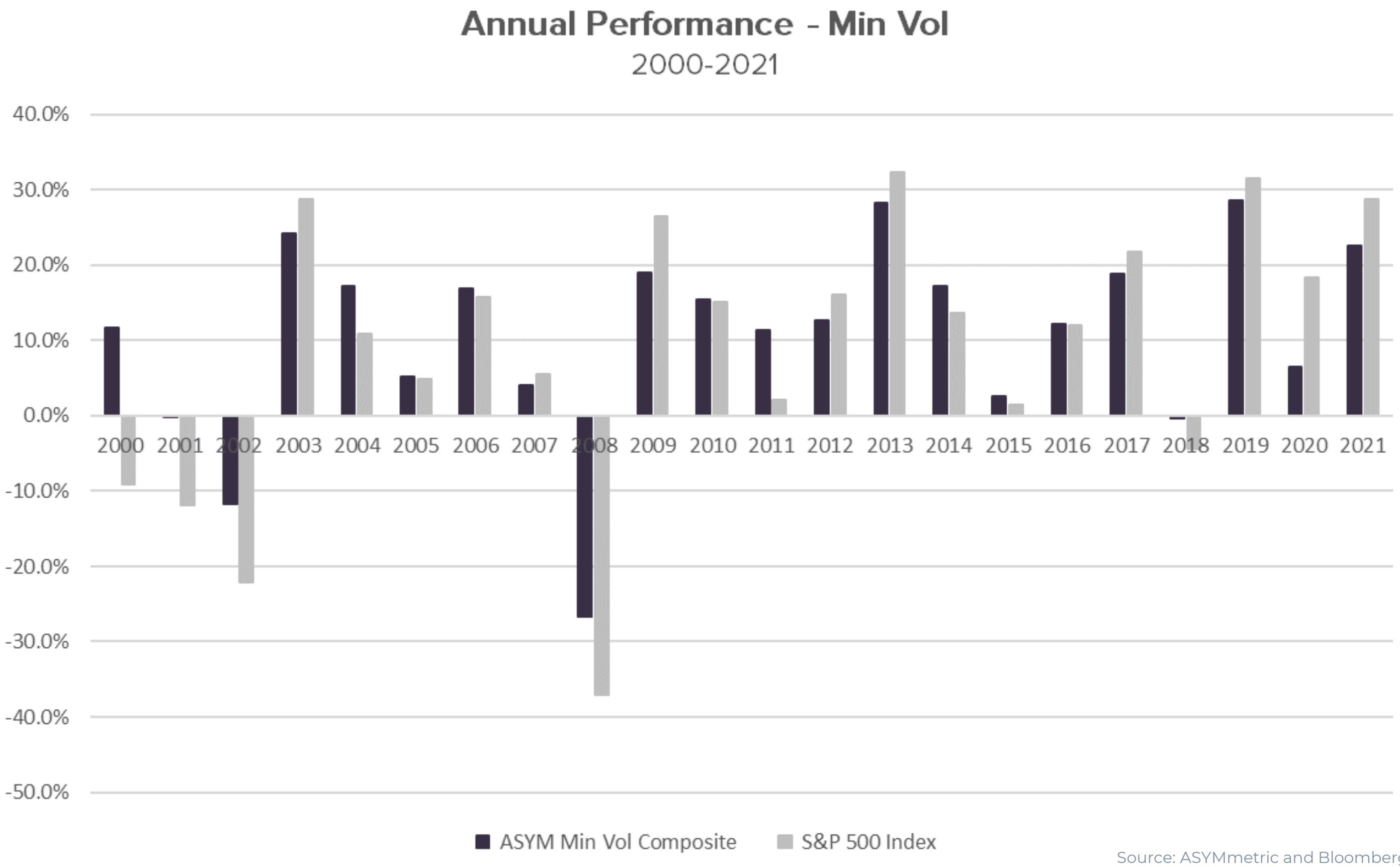
(1) Cumulative returns were calculated by dividing the ending level by the beginning level of the Min Vol Composite minus one.

Lower Volatility

The primary driver of alpha of the Min Vol Factor over the S&P 500® was loss mitigation. A visual analysis of a graph is a great way to interpret data. The chart below shows that the purple bars (Min Vol Composite) lost significantly less than the grey bars (S&P 500®) in down years. It also shows that the Min Vol Composite generally captured most of the gains in up years.

The Min Vol Composite outperformed the S&P 500® in five out of five of the down years or 100% of the time. The most notable occurrence was in 2000 when it returned +11.7% versus a loss of -9.1% for the S&P 500®. Downside capture in the remaining four down years ranged from a low of 1.4% in 2001 to a high of 72% in 2008. In up markets, the Min Vol Composite outperformed the S&P 500® in eight out of seventeen years or 47% of the time. The ASYM Min Vol Composite captured 76.4% of the upside in the years it under performed. When the S&P 500® returned greater than 20%, upside capture increased to 83% .

The Min Vol Factor has delivered lower volatility returns between 2000-2021. Its return stream captured a vast majority of the market upside and only a fraction of the downside. The Min Vol Factor supports the investment principle that the secret to wealth creation is capital preservation.



Source: ASYMmetric and Bloomberg

Highly Correlated During Corrections

The primary weakness of the Min Vol Factor was that it correlated highly with the broader equity market during periods of distress, like bear markets or significant market corrections. Higher correlations meant losses tended to be similar in magnitude and bottoms were put in near or on the same date.

Similar Magnitude of Losses

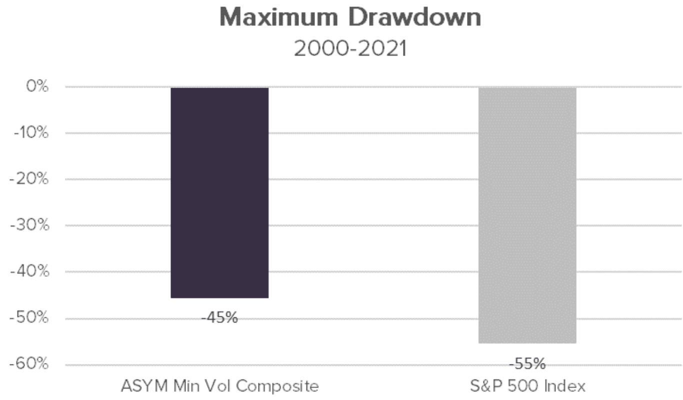
The magnitude of the losses of the Min Vol Factor generally rose as equity market downside volatility increased. The maximum drawdown of the Min Vol Composite between 2000-2021 was 45%. This compares with a maximum drawdown of 55% for the S&P 500® over the same time period. The Min Vol Composite captured 99% of the -33.8% loss the S&P 500® experienced during the COVID-19 correction.

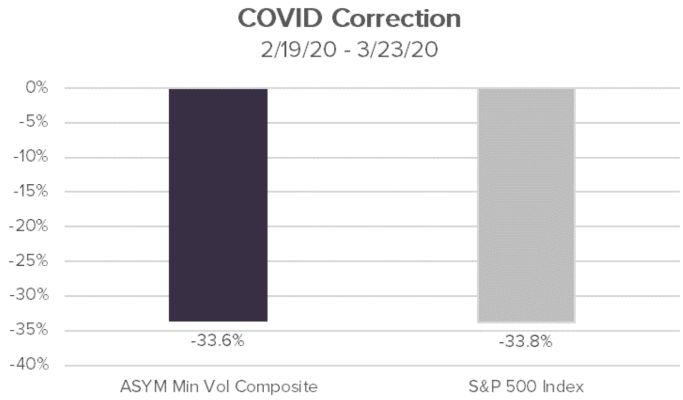
Bottoms with the Market

The Min Vol Composite generally bottomed with the S&P 500®. The maximum drawdown for both the Min Vol Composite and the S&P 500® occurred during the Great Recession. March 9, 2009 was the date each reached its respective bottom. During the COVID-19 correction, the bottom for each was again on the same day, March 23, 2020.

Conclusion

The Min Vol Factor has produced superior returns relative to the S&P 500®. It has done so with less risk, by focusing on capital preservation as a pathway to wealth creation. The Min Vol Factor is an equity factor. Equities tend to move both up and down together. During periods of heightened downside volatility, correlations tend to spike. The Min Vol Factor will probably lose money during a bear market or significant market correction. This is because the Min Vol Factor is pure equity exposure. Equities are not engineered to move inversely to the market.





Source: ASYMmetric and Bloomberg