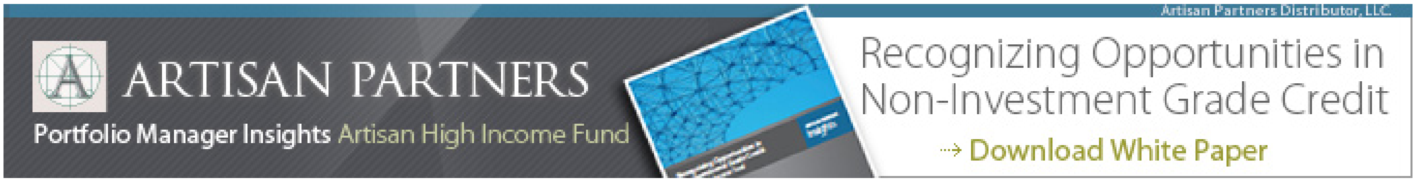

BARRON'S

Focus on Funds

News and analysis on ETFs, mutual funds and hedge funds.

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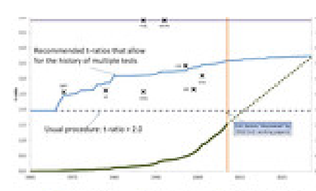
Smallcap and Low Volatility Investing Fail the Duke Test?

By Brendan Conway

I missed this in yesterday's "Most Financial Economics Research is 'Likely False'": The **Duke** researchers appear to give a failing grade to two of the most popular investing strategies the last few years.

If you're new to the study, **Campbell R. Harvey, Yan Liu** and **Heqing Zhu** argue in a recent **Social Science Research Network** paper that the commonly accepted methods for spotting investment "factors," i.e., the qualities that quants deem to be sources of investing returns, are too weak.



If you think the methods are too weak, you might also think the same is true of the investing strategies this research has spawned.

Among the findings coming up short in the trio's study are strategies based on "idiosyncratic volatility." That would seem to include the so-called "low volatility" anomaly, by which relatively stable stocks are found to deliver favorable risk-adjusted returns over time.

The same is true for the "smallcap premium," or the tendency of smaller stocks to perform better over time. (In the attached chart, look for "IVOL," or idiosyncratic volatility, and "SMB," or small minus big.)

Among the few making the tougher grade: Liquidity (LIQ), High Minus Low (HML, or value investing) and Momentum (MOM).

No, this doesn't have to mean your low-volatility ETF is garbage. But it does suggest the research on which these strategies are based bears more scrutiny.