

## Boutique boss: low vol love-in will end in tears

By Chris Sloley 29 Jul, 2016



The mass move into low volatility stocks is causing a worrying crowding effect that undermines the aim of cutting risk and also echoes pre-financial crisis behaviour.

That is according to Yves Choueifaty, president and founder of TOBAM, a firm that specialises in actively managed quantitative strategies operating without benchmark constraints.

Speaking to *Citywire Selector*, the Paris-based investor said asset allocators have responded to the low growth world by seeking to add risk assets in some areas, while using low volatility strategies as a pillar of overall portfolio construction.

Choueifaty said there have been large investments into defensive areas – for example utilities and consumer staples in the US – in a bid to shelter from macro shocks, while generating a small amount of return.

‘In the US, low volatility stocks are extremely expensive but there is still a clear trend that investors are moving into perceived low volatility stocks en masse, so you have this crowding effect in one area, effectively nullifying the idea of low volatility if everyone is there,’ he said.

Choueifaty, who focuses on widely diversified investments, said there was a similar period of activity in 2006/07, as investors sought to add stocks deemed structurally strong and operating with low volatility. In this instance, it was banks.

'This shows you that perceived low volatility is not a forecast of what is actually low risk, that is very different. Those who had taken those low volatility exposures in 2006/07 would have expected that to be what was safe in 2007/08, which is hardly the case, is it?

'There are currently a number of IT stocks in the US that are being treated in the same way. They are large parts of the cap-weighted index and are again perceived as low volatility,' Choueifaty added.

TOBAM is home to several equity-focused anti-benchmark funds available to French investors, while it [launched a fixed income-focused fund in October 2014](#). This was the first one launched on the company's SICAV platform.

<http://citywireselector.com/news/boutique-boss-low-vol-love-in-will-end-in-tears/a935314>