

1018 | 2018

ASIA CHART OF THE WEEK

Lower Volatility, Higher Sharpe

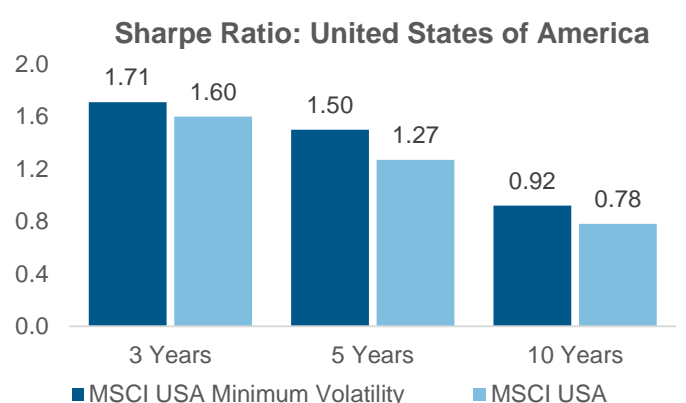
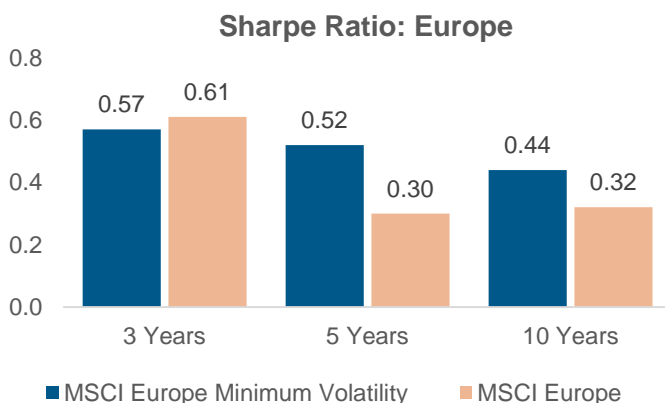
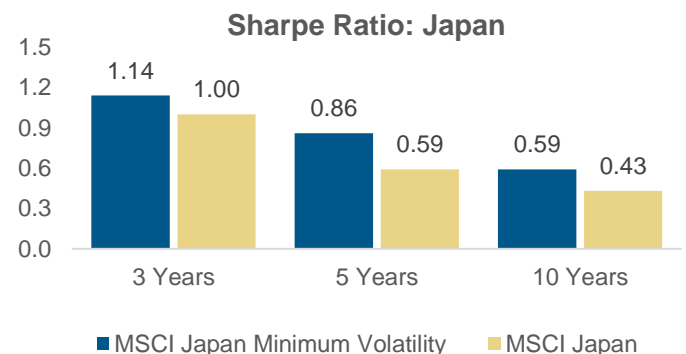
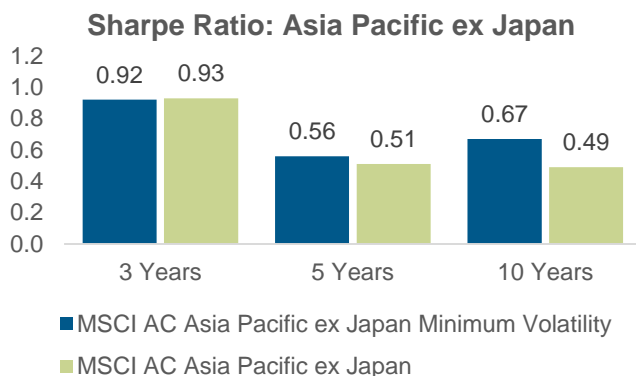
Lower volatility, higher Sharpe

- To the long term investor, how much excess return one receives for the extra volatility is perhaps an under appreciated concept.
- When investing in risk assets (such as equities), investors must always be adequately remunerated for the additional risk taken and the Sharpe ratio is one way of measuring how much excess return for one taking on additional risk
- With that in mind, investors should aim to achieve the highest possible Sharpe ratio for their investment horizon.
- Investors looking to invest into equity and looking to invest over reasonable time periods of 3, 5 and 10 years really have little argument against a minimum volatility approach.

The bottom line

- Data across 4 major equity destinations portray a very similar picture. That is; from a Sharpe ratio perspective, an approach that seeks to manage volatility can be beneficial for investors across 3, 5 and 10 year time periods.
- The concept of gaining more risk-adjusted return is further accentuated by having a longer time horizon as seen by the difference in Sharpe ratio during the 10 year time frame, when compared to shorter periods.

A low volatility approach has mostly achieved a higher Sharpe ratio when compared to their respective regional indices over the last 3, 5 and 10 Years.



Source: Legg Mason, MSCI, Bloomberg, as of 18 October 2018. Data in USD, 28 September 2018. Sharpe ratio based on gross monthly returns of the index and the risk free rate of ICE LIBOR One Month. **Past performance is no guarantee of future results.** Please note that an investor cannot invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges.

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Source: Legg Mason, Bloomberg, as of 18 October 2018. Data in USD, 28 September 2018.

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