Executive Summary

This paper assesses whether the “beta puzzle” or low volatility anomaly is also observable in Swiss stocks. Those two expressions describe the often observed anomaly that high risk stocks perform worse than low risk stocks in the long run despite the common perception that high risk should result in a high (expected) return.

This effect is also observable in Switzerland. However, with the data that was used it cannot be proven to be ascribed to the size of the beta since the whole effect can be explained by the four Carhart risk factors.

Another subject of this paper is the psychological reasons for the alleged preference of high risk stocks. The following effects seem to play a major role: loss aversion and diminishing sensitivity together with convex/concave payoffs, the certainty effect and the possibility effect in connection with the shape of the return distribution, and representativeness.

The last section of the thesis provides five tips for avoiding the aforementioned biases. These tips include:

1. Don’t go for the lottery ticket
2. Avoid regret
3. Set rules and policies
4. Create a separate account for speculative trades (optional)
5. Check your portfolio with a low frequency