Bachelor Thesis

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Are financial crises the reason for low beta out-performance?

Low beta anomaly during the 2008 crisis

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Abstract

Low risk investing and CAPM anomalies have been points of discussion in finance research for multiple decades. To gain insight on low risk investing in Switzerland the study aimed to answer the research question "Are financial crises the reason for low beta out-performance? Low beta anomaly during the 2008 crisis". To analyze this topic a low and a high beta portfolio were created based on a three-year trailing beta as at 2nd November 2001, each portfolio consisted of 5% of the Swiss Performance Index, after adjustments. The portfolios where also rebalanced differently to investigate whether the chosen rebalancing period influences the low beta anomaly.

The paper shows four major findings related to SPI based low risk investing. Firstly, the study shows the existence of a low beta anomaly in the swiss stock market. Secondly, while not all conducted studies show statistical outperformance of low beta stocks, both statistical and economic evidence for low beta outperformance is found during much of the analysis. Furthermore, high beta investments showed underperformance in comparison with the market and the low risk stocks throughout the study. Also, low beta stocks can maintain lower levels of risk throughout the study, which is one of the main purposes of low risk investing. Finally, altering the rebalancing periods of the portfolios showed no significant impact on the results, however the low beta investments ability to reduce risk is enhanced as rebalancing occurs more frequently.