

Speaker: Xia XU (ESSCA School of Management)

Language: English

Please contact Prof. Nakagawa (hnakagawa@hub.hit-u.ac.jp) by noon, Friday 29 September if you wish to participate in the seminar.

Title: Market Neutrality and Beta Crashes

Abstract: Market neutrality is a key feature of Frazzini and Pedersen (2014)'s betting against beta (BAB) strategy. However, we find that BAB fails to systematically remain market neutral, and the deviations often arrive in the shape of crashes. Specifically, BAB effectuates negative market timing and negative volatility timing amid volatile markets, promoting BAB crashes. The concern of imperfect market neutrality is shared by a broad range of market neutral low-beta strategies. Their particular vulnerability to bull markets is not explained by liquidity and leverage constraints. Managing the crash risk of low-beta strategies produces significant performance improvements after transaction costs.