Definitions related to Low Volatility Investing

- Volatility – The standard deviation (variability) of a stock's return over a period of time. High volatility means that the price of a security can change dramatically over a short time period in either direction. A lower volatility means that a security's value does not fluctuate dramatically, but changes in value at a steady pace over a period of time.

- Standard deviation – A statistical measurement of the variability of any given set of occurrences (returns, for example). Determining a stock's standard deviation helps investors determine how volatile and therefore how risky the stock is.

- Capital Asset Pricing Model (CAPM) – A model of modern finance that describes the relationship between risk and expected return assuming markets operate efficiently. Haugen's research has disputed this model by showing that low risk stocks outperform high risk stocks over time.

- Efficient Market Hypothesis – A theory of modern finance that states that stocks always trade at their fair value, making it impossible for investors to beat the market through expert stock selection or market timing. The only way investors can obtain higher returns is by purchasing riskier stocks.

- Agency issues – Conflicts of interest within a group of investment managers and between those managers and their clients.

  Haugen's take: investment managers recommend stocks for which they can make a compelling case. These stocks typically receive a great deal of media and analyst attention, which drives volatility. This process leads investors to be more heavily invested in high volatility stocks.

- Capitalization weighted portfolio – A portfolio where you invest more heavily in higher cap stocks than lower cap stocks.

- Equal weighted portfolio – A portfolio where you invest the same amount of money in each stock.

- VIX -- The Volatility Index; also called the fear index. It is a measure of the market's opinion of how risky it is at any given time.

- Beta – A measure of a stock's sensitivity to the market. A beta of one means that if the market goes up by one percent, you can expect a stock to go up by one percent as well.

- Alpha – The difference between a stock's return and the market's return.

- Sharpe ratio – A risk-adjusted measure of return. It tells us if a stock or portfolio's returns are due to excess risk.

- Risk-adjusted return – A portfolio's return that has been discounted to account for its level of risk.

- Deciles – 10 percent groupings of stocks.

- Quintile – 25 percent groupings of stocks.