Title: **LOW RISK ANOMALIES**

Speaker: **PAUL SCHNEIDER, University Of Lugano & Swiss Finance Institute**
CHRISTIAN WAGNER, Copenhagen Business School
JOSEF ZECHNER, CEPR and ECGI, WU Vienna

Importance: Why this matters:

Professor Schneider argued that the traditional CAPM is mis-specified, and that skewness needs to be added. If he is correct, all of our approaches that are based on the standard CAPM need to be adjusted. Incorporation of skewness would also provide an explanation for the low volatility anomalies.

Investigation: "Speaker analyzed XXX data to address the questions yyy, zzz, etc."

He investigated many of the volatility-related anomalies by testing them with and without incorporating skewness into the studies. Using a simulation based on a cross-section stocks from 1996 to 2014, he replicated Betting Against Beta, Idiosyncratic Volatility, Ex-Ante Variance and Distress studies, with and without a skewness factor. He obtained the skew from the options market.

Innovation: Are there new techniques of interest in the data or approach to the problem?

Introducing skewness into investigations of anomalies changes many findings. Importantly, average returns increase with risk.

Insights: 1-2-3, what are the three most important things the speaker offered?

1. Low risk "anomalies" do not necessarily pose asset pricing puzzles. Including skewness explains many of the volatility-related anomalies, including: high versus low beta, CAPM idiosyncratic volatility, 3-factor Fama-French idiosyncratic volatility, and low volatility.
2. Because they ignore the effect of skewness on stock prices, CAPM betas are prone to overestimating risk. Skew adjusted betas tend to be lower than unadjusted.
3. The model can be extended to the distress puzzle in fixed income credit markets.

Audience rating: 3.80