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Equal weight defies August volatility

Sydney, 10 September, 2015 – Equity managers and investors fearful of straying too far from their S&P/ASX 200 benchmark have been caught asleep at the wheel by August's 8% fall and extreme volatility. The flight to large cap dividend yielding companies in the past few years has skewed the concentration risk in Australia's share market, with the big four banks distorting benchmark conscious portfolios towards financial stocks.

Russel Chesler, Director – Investments and Portfolio Strategy at Van Eck Global Australia said: "With ANZ down 14.5%, CBA down 11.4%, Westpac down 10.7% and NAB down 10.3%, any investor with a portfolio dominated by these companies would have experienced a disappointing month due to the concentration risk these shares have on the Australian market. One approach for creating a more diversified portfolio is to equally weight each constituent of a portfolio. Investors in Market Vectors Australian Equal Weight ETF (ASX code: MVW) benefited from its significantly reduced exposure to the banks tumbling share prices.

"In total MVW was down 5.92%, a relative outperformance of 1.88% versus the 7.80% fall of the S&P/ASX 200. Looking at the performance attribution for August 2015, it is clear that the underweight holding in the large banks and miners has added significant value to the total portfolio. More than half the outperformance came from the underweight financials position, while another two-thirds of a per cent came from being underweight the big miners.

"With the looming Fed decision on US rates, China's slowing economy creating global jitters and Australia's own uncertain economic picture, volatility on the ASX looks likely to remain for the near future and investors could take some risk off the table and improve their returns by adopting an equal weight investment strategy.

"It is not just in downward markets that equal weighting has proven its worth. Earlier this year during the strong bull market the equal weighted ETF was ahead of the S&P/ASX 200 by 6.13% for the 12 months ending 31 May 2015 – proving that the inherently contrarian equal weight passive investment strategy can both reduce risk and add additional performance to a portfolio," concluded Chesler.

ENDS

Performance and data source: Factset and Morningstar Direct

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