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Equal weight outperformance: better exposure to the right tail

Sydney, 22 June 2018 – Equal weighting a portfolio has outperformed its market capitalisation counterparts over the long term and over almost all short term periods. This is because it consistently gives investors exposure to the right hand distribution tail compared to market capitalisation approaches according to VanEck’s research paper released today.

The new research paper, *Why equal weighting outperforms – The mathematical explanation* provides analysis of why VanEck’s Australian equally weighted portfolio has outperformed its market capitalisation counterparts.

According to the paper, the distribution of individual stock returns is not the normal distribution that most analysis assumes. Instead, the distribution of individual stock returns is ‘skewed’ or pushed to one side with a long tail of outperformers with very high returns located on the right hand side of the distribution curve.

The paper shows that the very large companies which dominate market capitalisation are not likely to be the ones with the extremely high returns on the right hand side. However equal weighting consistently gives investors greater exposure to the smaller stocks situated in the long tail of high performers which is what leads to outperformance.

Arian Neiron, Managing Director – Head of Asia Pacific, “Investors should aim to get significant exposure to the right side of the distribution curve where the winners sit which isn’t possible with a market capitalisation index. An equal weight index gives investors consistently greater exposure to these smaller stocks than market capitalisation weighting does.

“Not all equal weight approaches are equal. There needs to be a strong emphasis on liquidity and coverage which will help mitigate unnecessary tail risk. Australia’s standard equal weighted index, the MVIS Australia Equal Weight Index, has outperformed Australia’s standard market capitalisation weighted index, the S&P/ASX 200 Index, over most periods since its inception in 2014 because of its consistent exposure to high performing stocks,” Mr Neiron said.

VanEck’s belief in an equal weight approach led to the launch of the VanEck Vectors Australian Equal Weight ETF (ASX: MVW) in March 2014. MVW tracks the MVIS Australia Equal Weight Index which has outperformed the S&P/ASX 200 Index in 12 of the past 15 calendar years including the last six in a row. MVW has outperformed the S&P/ASX 200 Index by 3.55% per annum since its inception¹.

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¹ Performance since inception from March 2014 to 31 May 2018.

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