U.S. Equity Insights

2019's recovery offers a second chance

Executive summary

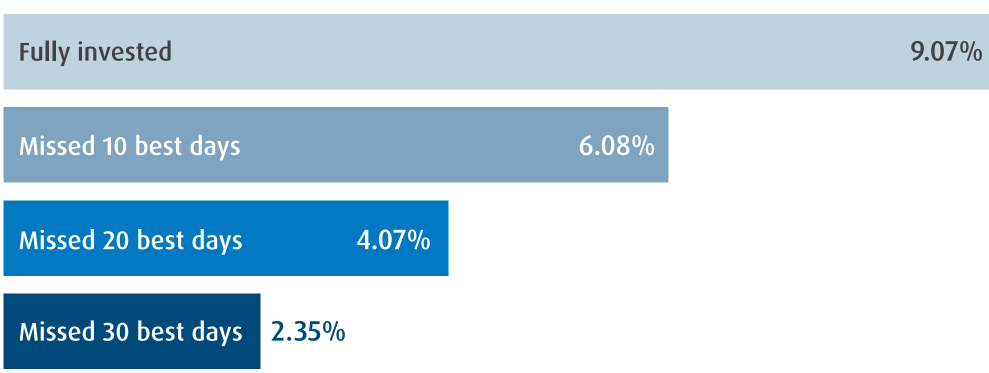
Low volatility strategies have become increasingly popular over the last 5-10 years as investors have looked for new ways to reduce risk.

Academic literature and our own research have shown that these strategies have offered significant downside protection during market downturns, with meaningful upside participation during bull markets, leading to equity-like returns (or better) over the long-term with fewer ups and downs along the way. Why is this valuable to investors?

One of the biggest mistakes that can be made following a market decline is selling at the bottom. Whether you are an investor resisting the behavioral temptation to become risk averse after a period of elevated volatility, or an investor with spending needs who may not want to raise cash immediately following a pullback, low volatility strategies can help investors stay invested by limiting the severity of portfolio swings.

The importance of staying invested

S&P 500® annualized returns 1994–2018



Sources: FactSet and BMO Global Asset Management
Investments cannot be made in an index.

The BMO U.S. Equities team

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The challenge is that many investors don't realize they need these strategies during a bull market, and by the time they want the downside protection, it's too late. The time to consider downside protection strategies is before a down market not during or after.

We were reminded of this lesson in the fourth quarter of 2018, when the Russell 1000® declined 13.8% in response to slowing economic growth, late cycle concerns, growing political risk including trade wars, concern over Fed policy, and a market hovering near all-time highs. During the fourth quarter drawdown, the BMO Disciplined U.S. Low Volatility Equity strategy only fell 7.1%,[1] providing almost 50% downside protection in just three months. And as expected, in the aftermath of this market decline, we've seen increased discussions with our clients about low volatility allocations.

The silver lining for most investors is that the sharp market recovery in 2019 is offering them a second chance. The market has regained its lost ground and remains near all-time highs, while many key risks driving markets lower during the fourth quarter remain valid (though less acute).

We urge investors to internalize lessons learned from the fourth quarter and revisit the role of low volatility strategies in their strategic allocations...before the next market downturn.

"The silver lining for most investors is that the sharp market recovery in 2019 is offering them a second chance."

BMO Global Asset Management

[1] Performance gross of fees.

The investments and investment strategies discussed are not suitable for, or applicable to, every individual.

All investments involve risk, including the possible loss of principal.

You should consider the Fund's investment objectives, risks, charges, and expenses carefully before investing. For a prospectus and/or summary prospectus, which contain this and other information about the BMO Funds, call 1-800-236-3863. Please read it carefully before investing.

The S&P 500® Index is an unmanaged index of large-cap common stocks.

Russell 1000® Index (Russell 1000®) consists of approximately 1,000 of the largest companies in the U.S. equity markets.

Investments cannot be made in an index.

Past performance is not necessarily a guide to future performance.

There is no guarantee that any investment strategy will meet its objectives.