Implementing a smart beta strategy and comparing it with a benchmark

# Results of smart beta strategy

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| **Property** | **Portfolio with Smart beta strategy** | **Benchmark (SPDR)** |
| Returns | 7.64% | 7.21% |
| Risk | 0.4351 | 0.4584 |
| Sharpe Ratio | 0.1515 | 0.1343 |

The smart beta strategy which is implemented in this assignment is an equal weightage strategy, i.e., an equal weight is assigned to all the assets in the portfolio rather than assigning weights with respect to their market capitalization. The benchmark considered here is S&P 500 index, where the weight to each asset in the security is assigned based on its market capitalization.

The results above show that when 100 USD is invested in the smart beta strategy and in the S&P 500 index, the smart beta strategy earns more return with less risk compared to the benchmark.

The higher the Sharpe ratio indicates the better a portfolio’s returns have been relative to the risk it has taken on, compared to the benchmark.

# Smart beta strategy pros and cons

### Pros:

1. Because of the equal weightage given to all the securities, the portfolio reduces the over exposure of the largest market cap securities which are present in the index.
2. Broadens the portfolio risk

### Cons:

1. The relative performance of the equally weighted portfolio depends on the performance of its largest components.