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# Trending Topics from J.P. Morgan Corp Fin Advisory | Week of May 28, 2018

## 3. How can volatility impact strategic decision making and valuation?

### Key Takeaways

- "Low volatility" investment strategies have outperformed over recent years and attracted significant investor interest.
- Increased diversification tends to contribute to lower operational and capital markets volatility. Firms should consider this when evaluating strategic alternatives such as spin-offs or split-offs of certain business segments.

An analysis of S&P 500 firms shows that less volatile firms (as measured by share price volatility) enjoy higher multiples (median NTM P/E for lower-volatility firms is 18.9x compared to 15.1x for the higher-volatility firms). Similarly, over the last five years S&P 500 and MSCI "low volatility" indices have outperformed the S&P 500 and MSCI World by approximately 20% each. These trends have followed a rise in low volatility investment strategies: the average assets-under-management of "smart beta" low volatility ETF funds has grown 175% over the last eight years (compared to the next largest gains in the "quality" strategy that grew at 60% over the same time period.).

These results illustrate the market’s focus on stability and predictability. Any corporate decision-making that negatively impacts the predictability of the overall business should be carefully evaluated to ensure the corresponding expected returns exceed any negative impact from increased uncertainty.

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J.P. Morgan Corporate & Investment Bank Marketing, 4 New York Plaza, Floor 12, NY1-E035, New York, NY, 10004-2413, United States.

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