

Forget Smart Beta, Here Comes Smart Alpha

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Just when the controversy over the name “smart beta” has died down, global asset manager [ArthVeda Capital](#) is stirring up the pot with its Smart Alpha Framework. The firm describes “Smart Alpha” as a rules-based value investing framework designed to produce portfolios of low-risk, high-quality stocks that are trading at a discount to their intrinsic value.

“The major disadvantage of conventional indices is that, because they are market-cap weighted, they tend to over-allocate to overvalued stocks and under-allocate to undervalued stocks,” said ArthVeda Executive VP and CIO Dr. Vikas Gupta, inventor and architect of the Smart Alpha concept, in a recent statement. “Smart Alpha does the reverse, which tends to produce better performance over the longer term.”

The Smart Alpha family is composed of three indices:

- **Smart Alpha**, which includes stocks that have “stable business models, strong balance sheets, a value-creating capital allocation track record, and are available at a discount to intrinsic value.” Stocks are weighted by discount to intrinsic value as determined by ArthVeda’s proprietary model.
- **Smart Income**, which equally weights the top 50 dividend-paying companies from their respective Smart Alpha pools; and
- **Smart Value**, which consists primarily of the same stocks in various major market indices, but weighted based on each component’s discount to intrinsic value (as determined by ArthVeda).

Each index component is weighted by its discount to intrinsic value, as compared to the float-adjusted market-cap weightings of conventional indices. The New York Stock Exchange is working with ArthVeda in providing calculation and dissemination services for its indices in the U.S. These indices currently include:

Smart Alpha Indices

- ArthVeda Smart Alpha US Total-cap 50 (AUTXA)

Smart Value Indices

- ArthVeda Smart Value US Large-cap 500 (AULVV)
- Arthveda Smart Value UK Large-cap 100 (ABLVV)
- ArthVeda Smart Value Europe Ex-UK Large-Cap (AKLVV)
- ArthVeda Smart Value Japan Large-Cap (AJLVV)

Smart Income Indices

- ArthVeda Smart Income US Total-cap 50 Divine Dividend (AUTDI)
- ArthVeda Smart Income International Large-cap 50 Divine Dividend (AXLDI)
- ArthVeda Smart Income Global Large-cap 50 Divine Dividend (AGLDI)

“We should be clear that these are not smart beta products,” said ArthVeda CEO Bikram Sen. “Rather than adjusting for exogenous factors that may affect business in the short term, we focus entirely on identifying undervalued high quality companies using our patent-pending Smart Alpha framework, which differs considerably from low price multiple approaches that are typically associated with value investing.”

“The U.S. launch of our global family of Smart Alpha Indexes represents an important new initiative for ArthVeda Capital,” said Chairman and Managing Director Kapil Wadhawan. “As a leading innovator in global asset management, we are looking forward to making our proprietary methodology available to investors in U.S. and International equities through partnerships with leading U.S.-based ETF issuers and asset managers.”