

Performance Measurement for Traditional Investment

Literature Survey

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Abstract

The number of professionally managed funds in the financial markets is increasing. The mutual fund market is highly developed with a wide range of products proposed. The resulting competition between the different establishments has served to strengthen the need for clear and accurate portfolio performance analysis, for which portfolio return alone is not sufficient. This has led to the search for methods that would provide investors with information that meets their expectations and explains the increasing amount of academic and professional research devoted to performance measurement. The topic of performance analysis is still in expansion, meeting the needs of both investors and portfolio managers.

Performance measurement brings together a whole set of techniques, many of which originate in modern portfolio theory. Beside models issued from portfolio theory, research in the area of performance measurement has also concerned the consideration of real market conditions and has developed techniques to fit cases where the restrictive hypotheses of portfolio theory are not observed.

This article presents the state of the art of performance measurement in the area of traditional investment, from a simple evaluation of portfolio return to the more sophisticated techniques including risk in its various acceptations. It also describes models that take a step away from modern portfolio theory and allow a consideration of cases beyond mean-variance theory. It concludes with a review of performance persistence studies.