

Portfolio Theory and Management

EDITED BY H. KENT BAKER

and

GREG FILBECK

OXFORD
UNIVERSITY PRESS

Contents

Acknowledgments ix
List of Tables xi
List of Figures xv
About the Editors xix
About the Contributors xxi

1. Portfolio Theory and Management: An Overview 1
H. KENT BAKER AND GREG FILBECK

Section One PORTFOLIO THEORY AND ASSET PRICING

2. Modern Portfolio Theory 23
ERIC JACQUIER

3. Asset Pricing Theories, Models, and Tests 46
NIKOLAY GOSPODINOV AND CESARE ROBOTTI

4. Asset Pricing and Behavioral Finance 73
HERSH SHEFRIN

Section Two THE INVESTMENT POLICY STATEMENT AND FIDUCIARY DUTIES

5. Assessing Risk Tolerance 99
SHERMAN D. HANNA, MICHAEL A. GUILLEMETTE,
AND MICHAEL S. FINKE

6. Private Wealth Management 121

DIANNA C. PREECE

7. Institutional Wealth Management 142

ERIC J. ROBBINS

8. Fiduciary Duties and Responsibilities of Portfolio Managers 165

REMUS D. VALSAN AND MOIN A. YAHYA

Section Three ASSET ALLOCATION AND PORTFOLIO
CONSTRUCTION

9. The Role of Asset Allocation in the Investment Decision-Making
Process 185

JAMES L. FARRELL JR.

10. Asset Allocation Models 208

J. CLAY SINGLETON

11. Preference Models in Portfolio Construction and Evaluation 231

MASSIMO GUIDOLIN

12. Portfolio Construction with Downside Risk 268

HARALD LOHRE, THORSTEN NEUMANN, AND
THOMAS WINTERFELDT

13. Asset Allocation with Downside Risk Management 293

JOSHUA M. DAVIS AND SÉBASTIEN PAGE

14. Alternative Investments 314

LARS HELGE HASS, DENIS SCHWEIZER, AND
JULIANE PROELSS

Section Four RISK MANAGEMENT

15. Measuring and Managing Market Risk 341

CHRISTOPH KASERER

16. Measuring and Managing Credit and Other Risks 361

GABRIELE SABATO

Section Five PORTFOLIO EXECUTION, MONITORING, AND
REBALANCING

17. Trading Strategies, Portfolio Monitoring, and Rebalancing 383

RICCARDO CESARI AND MASSIMILIANO MARZO

18. Effective Trade Execution 411

RICCARDO CESARI, MASSIMILIANO MARZO,
AND PAOLO ZAGAGLIA

19. Market Timing Methods and Results 438

PANAGIOTIS SCHIZAS

Section Six EVALUATING AND REPORTING PORTFOLIO
PERFORMANCE

20. Evaluating Portfolio Performance: Reconciling Asset
Selection and Market Timing 467

ARNAUD CAVÉ, GEORGES HÜBNER, AND THOMAS LEJEUNE

21. Benchmarking 490

ABRAHAM LIOUI AND PATRICE PONCET

22. Attribution Analysis 511

NANNE BRUNIA AND AUKE PLANTINGA

23. Equity Investment Styles 529

ANDREW MASON

24. Use of Derivatives 546

MATTHIEU LEBLANC

25. Performance Presentation 567

TIMOTHY P. RYAN

Section Seven SPECIAL TOPICS

26. Exchange Traded Funds: The Success Story of the
Last Two Decades 587
GERASIMOS G. ROMPOTIS
27. The Past, Present, and Future of Hedge Funds 604
ROLAND FÜSS AND SARAH MÜLLER
28. Portfolio and Risk Management for Private Equity
Fund Investment 638
AXEL BUCHNER AND NIKLAS WAGNER
29. Venture Capital 654
PASCHAL GANTENBEIN, RETO FORRER, AND NILS HEROLD
30. Socially Responsible Investing 674
HUNTER M. HOLZHAUER
- Discussion Questions and Answers* 692
- Index* 739