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MANAGEMENT OF PORTFOLIOS

Abstract:

This paper provides a mathematical explanation for the flaws in the formulae used for computing the mean and variance of the returns of the portfolios as given in the Modern Portfolio Theory of Markowitz (1952) and also for the inefficacy of conducting regression analyses of the portfolio returns with respect to the market portfolio as advocated by Jensen (1969). Consequently, we get increasing mean price for increased logical sophistication of the active management strategy for portfolios indicating that it is possible to pick up the winners in an efficient market if accepting the additional risk that accompanies such strategies.

Keywords:

Active Management, Passive Management, Strategy; Price, Return

JEL Classification: G11, G14, G17