



Portfolio Performance Metrics Security Analysis and Portfolio Management



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Introduction to Portfolio Performance Metrics



● Definition of Portfolio Performance Metrics

Importance in Investment Decision-Making

Portfolio performance metrics are vital for investors to evaluate and compare potential investments, guiding their strategies and helping to assess risk versus return.



Key Characteristics of Effective Metrics

Effective portfolio performance metrics should be relevant, reliable, understandable, and actionable, allowing investors to make informed decisions based on clear evaluations.

● Types of Performance Metrics



Absolute vs. Relative Performance Metrics

Absolute performance metrics assess the standalone performance of a portfolio, while relative metrics compare performance against benchmarks or peers, providing broader context.



Risk-Adjusted Return Metrics

Risk-adjusted return metrics, such as Sharpe and Sortino ratios, evaluate returns concerning the risk taken, offering insights into how effectively a portfolio manages volatility.

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Commonly Used Portfolio Performance Metrics



● Sharpe Ratio



Calculation of the Sharpe Ratio

The Sharpe Ratio is calculated by subtracting the risk-free rate from the portfolio's return and dividing the result by the portfolio's standard deviation. This measures risk-adjusted performance.



Interpretation of Results

A higher Sharpe Ratio indicates better risk-adjusted return, suggesting that the portfolio is generating more excess return per unit of risk. This is crucial for informed investment decisions.

● Treynor Ratio



■ Difference Between Sharpe and Treynor Ratio

While both ratios measure risk-adjusted performance, the Treynor Ratio uses systematic risk (beta) instead of total risk, making it more suitable for diversified portfolios and investors focusing on market risk.

■ Applications in Real-World Scenarios

The Treynor Ratio helps investors understand how well a portfolio compensates for market risk, guiding decisions in choosing between different investments with varying beta levels.

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Advanced Performance Metrics and Analysis



● Alpha and Beta



Understanding Alpha as a Measure of Performance

Alpha represents the excess return of an investment relative to the return of a benchmark index, demonstrating the value added by a portfolio manager's investment decisions.

01



The Role of Beta in Portfolio Volatility

Beta measures a portfolio's volatility compared to the market; a higher beta indicates greater risk and return potential, while a lower beta suggests stability and less market correlation.

02

Information Ratio

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How to Calculate the Information Ratio

The Information Ratio is calculated by dividing the active return (fund return minus benchmark return) by the tracking error, reflecting how consistently a manager outperforms the benchmark.

02

Impacts on Portfolio Management Strategies

A high Information Ratio indicates effective active management strategies, guiding investment decisions and risk management, ultimately enhancing portfolio performance and client satisfaction.

The background of the slide features a dark blue grid pattern overlaid on a blurred image of financial data. The data includes orange and yellow bar charts and red and blue line graphs, suggesting a technical or financial analysis theme.

Thanks

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