



Performance evaluation with high moments and disaster risk [☆]

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Abstract

Traditional performance evaluation measures do not account for tail events and rare disasters. To address this issue, we reinterpret the riskiness measures of Aumann and Serrano (2008) and Foster and Hart (2009) as performance indices. We derive the moment properties of these indices and their sensitivity to rare disasters and show that they are consistent with the asset pricing literature. As applications, we show that “anomalous” investment strategies such as “momentum” or investment in private equity lose much of their glamour when accounting for high moments and rare events. Furthermore, using the indices to select mutual funds results in desirable high-moment properties out of sample.

JEL classification

D81; G11

Keywords

Performance evaluation; Rare disasters; High distribution moments

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