

Skill, History and Risk-Adjusted Performance

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Abstract

There has been a lot of research recently on risk-adjusted performance measures as investors have grown more sophisticated and have peered behind absolute performance measures. An ideal performance measure should adjust for risk, but also provide some indication of the skill of a manager, provide some indication on how portfolios should be constructed and ideally take into account the full performance history of the manager. This note reviews the major risk-adjusted performance measures, highlights deficiencies in the existing range of measures and proposes an alternative that attempts to achieve all three lofty goals in a performance measure.