Highlights

- A new performance measure based on the Gain–Loss-Ratio is developed.
- Drawbacks of the Gain–Loss-Ratio are conquered.
- A new tool to illuminate the distribution of out-performance is given.

Abstract

The Gain–Loss-Ratio, proposed by Bernardo and Ledoit (2000), can either be used as a performance measure on a market with known prices or to derive price intervals in incomplete markets. For both applications, there is a considerable theoretical drawback: it reaches infinity for nontrivial cases in many standard models with continuous probability space. In this paper, a more general ratio is proposed, which includes the original Gain–Loss-Ratio as a limit case. This “Substantial Gain–Loss-Ratio” is applicable in case of continuous probabilities. Additionally, in its function as a performance measure it helps illuminate the source of out-performance that a portfolio reveals.

JEL classification

G11; G12; G13; G19

Keywords

Gain–Loss-Ratio; Acceptability index; Incomplete markets; Good-Deal bounds