

“A Survey on the Four Families of Performance Measures”*

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Abstract

Performance measurement is one of the most studied subjects in financial literature. Since the introduction of the Sharpe ratio in 1966, a large variety of new measures has appeared constantly in scientific journals as well as in practitioners’ publications. The most complete and significant studies of performance measures, so far, have been written by Aftalion and Poncet (2003), Le Sourd (2007), Bacon (2000 and 2008), and, Cogneau and Hübner (2009a and 2009b). A review of the most recent literature led us to collect several dozen measures that we classify into four families. We first present the class of relative measures, starting with the Sharpe (1966) ratio. Secondly, we analyse absolute measures, beginning with the most famous one - the Jensen (1968) *alpha*. Thirdly, we study general measures based on specific features of the return distribution, where the pioneering contributions are those of Bernardo and Ledoit (2000), and Keating and Shadwick (2002). Finally, the fourth set concerns a few measures that explicitly take into account the investor’s utility functions.

Keywords: Performance Measures, Risk, Return Distribution, Ranking, Fund Selection.

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