

The (more than) 100 Ways to Measure Portfolio Performance

Part 2: Special Measures and Comparison

This paper performs a census of the 107 performance measures for portfolios that have been proposed so far in scientific literature. We discuss the main strengths and weaknesses and provide a classification based on their objectives, properties, and degree of generalization. The measures are categorized based on the general way they are computed: asset selection vs. market timing, standardized vs. individualized, absolute vs. relative, and excess return vs. gain measure. We show that several categories have been exhausted while others feature very heterogeneous ways to assess performance within the same sets of objectives. The census is divided into two parts. The current article (Part 2) presents the 32 special measures and provides an empirical comparison of the rankings produced by some of the major measures.

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INTRODUCTION

Since the introduction of the Sharpe Ratio in 1966, many different measures of portfolio performance have been introduced in the scientific as well as practitioner literature. Yet, there exists no census of all of them. The most complete study so far is due to Le Sourd (2007), but it mentions about fifty different measures.¹

From an exhaustive review of the relevant literature, we have identified more than one hundred portfolio performance measures.² The main purpose of this set of two papers is to provide a taxonomy of them. It naturally involves the identification of categories, in which we gather those measures that display common character-

istics. Hence, we do not only provide an exhaustive list, but also a partition of the performance measurement area in homogenous categories.³

The second objective of this article is to identify, among the categories, those that can be considered as “dead-ends” in terms of further investigations. Whenever there exists a performance measure that provides a proper generalization of any measure within the same category, then common sense dictates the usage of this particular measure and the abandonment of any other attempt to research further in that direction.

In this paper, we continue the development of the measures identified in part 1 with those that belong to the