TACTICAL ASSET ALLOCATION WITH RETURN GENERATING MODEL: THE ALPHA STRATEGY

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ABSTRACT

This paper explores the measurement of performance for asset portfolios composed of significantly positive alpha securities in a 95% confidence interval in emerging markets. Four different estimating strategies were used to evaluate portfolio performance. These strategies are: traditional Mean-Variance or Markowitz, Single Index Model (SIM), Capital Asset Pricing Model (CAPM), and the Three Factor Model. Each of these strategies was compared with its initial and subsequent period. The results showed that among the four alternative strategies, the Mean-Variance model outperformed the other portfolio selection strategies, suggesting that the Mean-Variance methodology is the most appropriate for portfolio selection strategy.

In beating the benchmark, portfolio managers who employed Single Index Model strategy were the most skillful managers. However, most portfolio managers had a ratio of less than 0.5, which is considered a performance level below that good managers.

KEY WORDS: ALPHA / SINGLE INDEX MODEL / CAPM / PORTFOLIO OPTIMIZATION / MULTIFACTOR MODEL

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