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Portfolio Performance Based on Expected Maximum Drawdown: Evidence from IBEX35 & BIST30

Umut Uyar¹¹Pamukkale University, Turkey

ABSTRACT

Nowadays, information symmetry have importance on financial markets. Investors who are rational persons need detailed information for their portfolios. For this necessity, they have to make calculations and analysis with financial data. There are many analysis about investment management and performance metrics, such as Efficient Frontier, Sharpe ratio, Jensen's Alpha, Treynor ratio, Sortino ratio, etc. Maximum Drawdown (MDD) is the maximum loss from a peak to a trough of a portfolio, before a new peak is attained. It is possible to calculate analytically the Expected Maximum Drawdown (EMDD) for a geometric Brownian motion. In this paper, firstly, MDDs are calculated with 2015 daily returns for IBEX35 and BIST30. Secondly, EMDDs are estimated for next 30-60-90 days and portfolio weights are computed using EMDDs for risk seeking and averse investors. Finally, the portfolio performances which are consisted by IBEX35 and BIST30 stocks are examined about the next 30-60-90 days. As a conclusion, the aim of this paper is to give another perspective to investors based on risk and suggest a different variable for portfolio weights.

KEYWORDS Portfolio Performance; Maximum Drawdown; Expected Maximum Drawdown

JEL G10, G11, F30