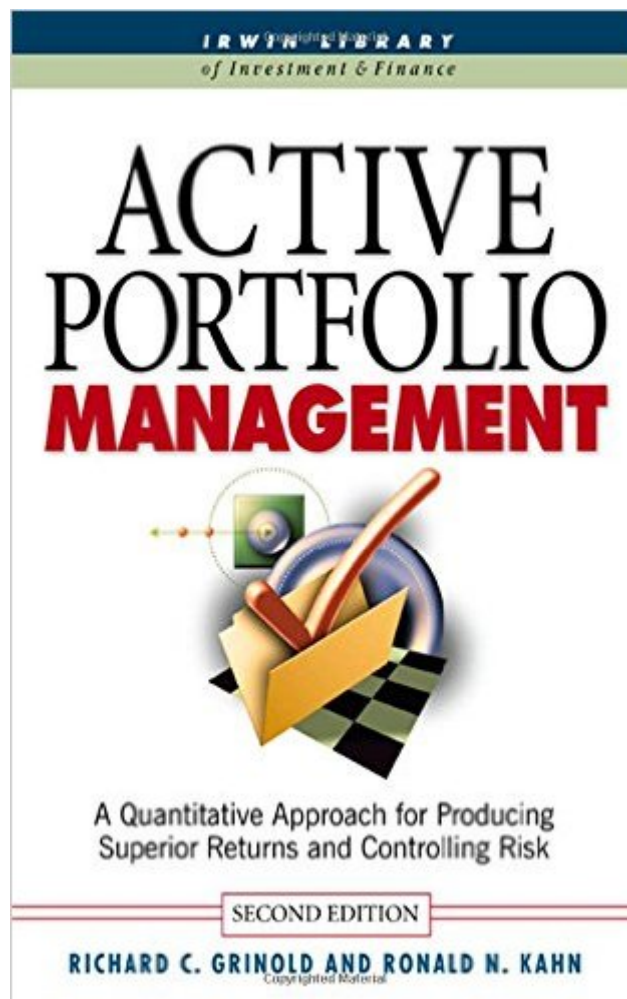


The book was found

Active Portfolio Management: A Quantitative Approach For Producing Superior Returns And Controlling Risk



Synopsis

"This new edition of Active Portfolio Management continues the standard of excellence established in the first edition, with new and clear insights to help investment professionals." -William E. Jacques, Partner and Chief Investment Officer, Martingale Asset Management. "Active Portfolio Management offers investors an opportunity to better understand the balance between manager skill and portfolio risk. Both fundamental and quantitative investment managers will benefit from studying this updated edition by Grinold and Kahn." -Scott Stewart, Portfolio Manager, Fidelity Select Equity Â® Discipline Co-Manager, Fidelity Freedom Â® Funds. "This Second edition will not remain on the shelf, but will be continually referenced by both novice and expert. There is a substantial expansion in both depth and breadth on the original. It clearly and concisely explains all aspects of the foundations and the latest thinking in active portfolio management." -Eric N. Remole, Managing Director, Head of Global Structured Equity, Credit Suisse Asset Management.

Mathematically rigorous and meticulously organized, Active Portfolio Management broke new ground when it first became available to investment managers in 1994. By outlining an innovative process to uncover raw signals of asset returns, develop them into refined forecasts, then use those forecasts to construct portfolios of exceptional return and minimal risk, i.e., portfolios that consistently beat the market, this hallmark book helped thousands of investment managers. Active Portfolio Management, Second Edition, now sets the bar even higher. Like its predecessor, this volume details how to apply economics, econometrics, and operations research to solving practical investment problems, and uncovering superior profit opportunities. It outlines an active management framework that begins with a benchmark portfolio, then defines exceptional returns as they relate to that benchmark. Beyond the comprehensive treatment of the active management process covered previously, this new edition expands to cover asset allocation, long/short investing, information horizons, and other topics relevant today. It revisits a number of discussions from the first edition, shedding new light on some of today's most pressing issues, including risk, dispersion, market impact, and performance analysis, while providing empirical evidence where appropriate. The result is an updated, comprehensive set of strategic concepts and rules of thumb for guiding the process of-and increasing the profits from-active investment management.

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Customer Reviews

There's three basic categories of quants. Structurers, risk managers and traders. Structurers don't need this book. They should go buy Hull and be happy. Every risk manager and trader in the business needs this book. When I was first introduced to this book, I figured it was more or less only for their money management business a manual for building Barclays Index Plus funds. That is what Grinold and Kahn do for a living, and they probably wrote the book to have something to give to dumb pupils who don't know anything. The book certainly covers some of the details and models used in money management tasks. However, this book is a lot more than that. They didn't write a book about specific investment instances that come up. They write a book which generalizes well to all fields involving information under uncertainty. They don't talk much about futures or options; this really is about equities, but if you're trading in those other markets, you still need this book. Yes, you actually do need some calculus and linear algebra to read the book. It's written for people who understand math; it's a book on **quantitative** finance -not "seat of pants" trading. Even if you skip the mathematics (and most of the heavy stuff is kept neatly tucked away in appendices, so as not to frighten the MBAs and small children), you're likely to get something out of it: at least you'll have a vague idea of what the propeller heads in the white laboratory jackets are up to. What I find most remarkable about the book is how it rewards upon rereadings. Got a trading problem? There is probably a section in this book which relates to it. When I'm banging my head on a problem, and getting no joy from the google machine, Grinold and Kahn's book often has something which at least points me to the answer.

Academic financial text books have, to a large extent, focused on beta and the so called efficient market. Active Portfolio Management was groundbreaking when it was first published in 1994 as instead it was devoted to the practical process of generating alpha from a quantitative angle. Richard

Grinold and Ronald Kahn, today retired and at BlackRock respectively, share a history in academia, at BARRA and above all at the quant behemoth Barclays Global Investors where they both held leading positions while writing this book. Even though the book is full of financial theory the approach is practical. The topic at hand is the generation of risk adjusted relative returns. The market returns are always the baseline and success is measured by the IR (the ratio of residual return to residual variance) rather than an academic Sharpe ratio. When I first read this book 10 - 12 years ago I didn't by any means find it enjoyable. It's thick, theoretical, filled with formulas and I was frankly not ready for it. Yet, over the years I find myself returning to the key concepts of the book over and over again. Out of the four parts the first lays out the authors' theories and then the latter three cover the practical work of a quant PM. The claim to fame of the book is a concept called The Fundamental Law of Active Management that reads $IR = IC \cdot \sqrt{BR}$. It states that there are two sources of opportunities to increase the information ratio. The first is the ability to forecast asset's residual return, measured by the information coefficient. The IC is the connection between forecasts and eventual returns, $IC = 2 \cdot (N1/N) - 1$ where N1 denotes the number of correct bets and N the total number of bets made. It's a measure of skill. Active asset management is all about forecasting.

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