Naive versus optimal diversification: Tail risk and performance

Inchang Hwang, Simon Xu, Francis In

PII: S0377-2217(17)30709-9
DOI: 10.1016/j.ejor.2017.07.066
Reference: EOR 14616

To appear in: *European Journal of Operational Research*

Received date: 22 August 2015
Revised date: 27 July 2017
Accepted date: 28 July 2017

Highlights

- Examine the tail risk of naive diversification relative to optimal diversification.
- Naive diversification increases tail risk and makes portfolio returns more concave.
- Outperformance of naive strategy represents compensation for increased tail risk.