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Performance measurement and mean-variance hedging

The talk will explore methodologies for performance measurement, starting with the Sharpe ratio and mean-variance preferences, through to monotone mean-variance preference and the arbitrage-adjusted Sharpe ratio, finishing with the notion of investment potential for general preferences.

In the second part we will discuss performance measurement in a dynamic setting when trading and hedging of derivatives also takes place. We will show how the measure of performance can be simply derived from an abstract mean-variance hedging problem.

References
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Černý, A. (2006, January), Performance of Option Hedging Strategies: The Tale of Two Trading Desks, SSRN working paper http://ssrn.com/abstract=877912