Investment Portfolio Analysis

Performance Evaluation

Absolute Return: This term refers to the total return generated by an investment or a portfolio over a specified period, without considering the returns of other investments or benchmarks. In the context of investment portfolio analysis, absolute return is an important metric for evaluating the performance of a portfolio. Related terms include relative return and benchmark. For example, if a portfolio generates a 10% return over a year, its absolute return is 10%, regardless of how other investments or the market as a whole performed.

Active Management: This term refers to an investment approach where the portfolio manager actively selects and trades securities to achieve the investment objectives. Active management involves security selection and market timing to generate returns that are higher than the market or benchmark. Related terms include passive management and indexing. For instance, an active manager may try to identify undervalued stocks and buy them, expecting their prices to rise in the future.

Active Share: This term measures the percentage of a portfolio's holdings that differ from its benchmark. Active share is a metric used to evaluate the level of active management in a portfolio. A higher active share indicates a more aggressive active management approach. Related terms include tracking error and information ratio. For example, if a portfolio has an active share of 80%, it means that 80% of its holdings are different from its benchmark.

Alpha: This term refers to the excess return generated by a portfolio or investment over its benchmark, adjusted for risk. Alpha is a measure of the portfolio manager's skill and ability to generate returns that are higher than the market or benchmark. Related terms include beta and information ratio. For instance, if a portfolio generates a return of 12% while its benchmark returns 10%, its alpha is 2%.

Arbitrage: This term refers to the practice of exploiting price differences between two or more markets to generate a risk-free profit. Arbitrage involves buying a security at a low price in one market and selling it at a higher price in another market. Related terms include market efficiency and pricing anomaly. For example, if a stock is trading at $50 in one market and $55 in another, an arbitrageur can buy the stock at $50 and sell it at $55, earning a risk-free profit of $5.

Asset Allocation: This term refers to the process of dividing a portfolio's assets among different asset classes to achieve the investment objectives. Asset allocation involves allocating assets to different classes, such as stocks, bonds, and real estate, to manage risk and generate returns. Related terms include strategic asset allocation and tactical asset allocation. For instance, a portfolio may allocate 60% of its assets to stocks, 30% to bonds, and 10% to real estate.

Asset Class: This term refers to a group of investments that share similar characteristics and return profiles. Asset classes include stocks, bonds, real estate, commodities, and currencies. Related terms include asset allocation and portfolio diversification. For example, stocks are an asset class that includes equities from different companies and industries.

Backtesting: This term refers to the process of evaluating the performance of an investment strategy or model using historical data. Backtesting involves simulating the performance of a strategy or model over a specified period to assess its effectiveness and robustness. Related terms include walk-forward optimization and out-of-sample testing. For instance, a portfolio manager may backtest a strategy using data from the past 10 years to evaluate its potential performance.

Benchmark: This term refers to a reference point or standard used to evaluate the performance of a portfolio or investment. Benchmarks can be market indexes, such as the S&P 500, or custom benchmarks tailored to a specific investment strategy. Related terms include relative return and absolute return. For example, a portfolio may use the S&P 500 as a benchmark to evaluate its performance.

Beta: This term measures the systematic risk or volatility of a portfolio or investment relative to its benchmark. Beta is a measure of the sensitivity of a portfolio's returns to the returns of the market or benchmark. Related terms include alpha and Sharpe ratio. For instance, if a portfolio has a beta of 1.2, it means that its returns are 20% more volatile than the market or benchmark.

Capital Asset Pricing Model (CAPM): This term refers to a theoretical model that describes the relationship between the expected return of an investment and its risk. CAPM is a widely used model for evaluating the performance of investments and portfolios. Related terms include beta and alpha. For example, CAPM can be used to estimate the expected return of a stock based on its beta and the expected return of the market.

Compound Return: This term refers to the return generated by an investment over a specified period, taking into account the reinvestment of earnings. Compound return is a measure of the long-term performance of an investment. Related terms include simple return and annualized return. For instance, if an investment generates a 10% return over a year, its compound return over 5 years would be significantly higher due to the reinvestment of earnings.

Correlation: This term measures the relationship between the returns of two or more investments or asset classes. Correlation is a measure of the degree to which the returns of two investments move together. Related terms include diversification and portfolio risk. For example, if two stocks have a correlation of 0.8, it means that their returns tend to move together 80% of the time.

Country Risk: This term refers to the risk associated with investing in a particular country or region. Country risk includes political risk, economic risk, and currency risk. Related terms include sovereign risk and emerging market risk. For instance, investing in a country with a unstable government or economy can pose significant country risk.

Credit Risk: This term refers to the risk that a borrower will default on a debt obligation. Credit risk is a major concern for lenders and investors in debt securities, such as bonds. Related terms include default risk and credit spread. For example, if a company issues a bond with a high credit risk, investors may demand a higher yield to compensate for the risk.

Currency Risk: This term refers to the risk associated with fluctuations in exchange rates when investing in foreign currencies. Currency risk can have a significant impact on the returns of international investments. Related terms include foreign exchange risk and hedging. For instance, if an investor buys a foreign stock and the exchange rate fluctuates, it can affect the investor's returns.

Diversification: This term refers to the process of spreading investments across different asset classes and sectors to manage risk. Diversification is a key strategy for reducing portfolio risk and increasing potential returns. Related terms include portfolio optimization and asset allocation. For example, a portfolio may diversify its assets by investing in stocks, bonds, and real estate.

Downside Risk: This term refers to the risk of losses or negative returns on an investment. Downside risk is a major concern for investors, as it can have a significant impact on their wealth and financial goals. Related terms include value at risk and expected shortfall. For instance, if an investor is concerned about downside risk, they may invest in assets with lower volatility or use hedging strategies.

Efficient Frontier: This term refers to the set of optimal portfolios that offer the highest expected return for a given level of risk. The efficient frontier is a concept in modern portfolio theory that helps investors identify the best portfolios for their investment objectives. Related terms include portfolio optimization and asset allocation. For example, an investor may use the efficient frontier to identify the optimal portfolio that balances risk and return.

Emerging Market: This term refers to a country or region that is experiencing rapid economic growth and industrialization. Emerging markets offer significant investment opportunities, but also pose unique risks and challenges. Related terms include developing market and frontier market. For instance, investing in an emerging market like China or India can offer high growth potential, but also poses risks such as currency fluctuations and regulatory changes.

Expected Return: This term refers to the anticipated return on an investment, based on its historical performance and future expectations. Expected return is a key input in portfolio optimization and investment decision-making. Related terms include required return and hurdle rate. For example, an investor may estimate the expected return of a stock based on its historical returns and future growth prospects.

Factor Model: This term refers to a theoretical model that describes the relationship between the returns of an investment and various factors, such as size, value, and momentum. Factor models are widely used in portfolio construction and risk management. Related terms include asset pricing model and risk factor. For instance, a factor model may be used to estimate the expected return of a stock based on its exposure to different risk factors.

Foreign Exchange Risk: This term refers to the risk associated with fluctuations in exchange rates when investing in foreign currencies. Foreign exchange risk can have a significant impact on the returns of international investments. Related terms include currency risk and hedging. For example, if an investor buys a foreign stock and the exchange rate fluctuates, it can affect the investor's returns.

Fundamental Analysis: This term refers to the process of evaluating the intrinsic value of a company or investment based on its financial statements, management team, and industry trends. Fundamental analysis is a key approach to investment research and decision-making. Related terms include technical analysis and quantitative analysis. For instance, a fundamental analyst may evaluate a company's financial statements to estimate its intrinsic value and potential for growth.

Hedging: This term refers to the process of reducing or managing risk by taking a position in a derivative or other security that offsets the risk of an investment. Hedging is a key strategy for managing risk and protecting investments. Related terms include risk management and derivative. For example, an investor may hedge a stock portfolio by buying a put option to protect against potential losses.

Information Ratio: This term measures the ratio of a portfolio's excess return to its tracking error. Information ratio is a metric used to evaluate the performance of a portfolio manager or investment strategy. Related terms include alpha and beta. For instance, if a portfolio has an information ratio of 0.5, it means that its excess return is 0.5 times its tracking error.

Investment Grade: This term refers to a credit rating that indicates a low risk of default on a debt obligation. Investment grade is a key consideration for investors in debt securities, such as bonds. Related terms include credit risk and default risk. For example, a bond with an investment grade rating is considered to be a low-risk investment.

Investment Objective: This term refers to the goal or target of an investment, such as capital appreciation, income generation, or capital preservation. Investment objective is a key consideration in portfolio construction and investment decision-making. Related terms include risk tolerance and time horizon. For instance, an investor may have an investment objective of generating income from a portfolio of bonds.

Investment Strategy: This term refers to the approach or plan used to achieve an investment objective, such as active management, passive management, or value investing. Investment strategy is a key consideration in portfolio construction and investment decision-making. Related terms include asset allocation and portfolio optimization. For example, an investor may use a value investing strategy to select stocks with low prices and high potential for growth.

Liquidity Risk: This term refers to the risk that an investment may not be liquid or marketable when needed. Liquidity risk is a major concern for investors, as it can have a significant impact on their ability to meet their financial obligations. Related terms include market risk and credit risk. For instance, investing in a private company or a illiquid market can pose significant liquidity risk.

Market Capitalization: This term refers to the total value of a company's outstanding shares. Market capitalization is a key metric for evaluating the size and scope of a company. Related terms include market value and enterprise value. For example, a company with a market capitalization of $100 billion is considered to be a large-cap company.

Market Risk: This term refers to the risk that the value of an investment will fluctuate due to changes in market conditions. Market risk is a major concern for investors, as it can have a significant impact on their wealth and financial goals. Related terms include systematic risk and unsystematic risk. For instance, investing in a stock market can pose significant market risk due to fluctuations in market conditions.

Modern Portfolio Theory (MPT): This term refers to a theoretical framework that describes the relationship between the expected return and risk of an investment. MPT is a widely used approach to portfolio construction and investment decision-making. Related terms include efficient frontier and portfolio optimization. For example, MPT can be used to identify the optimal portfolio that balances risk and return.

Momentum Investing: This term refers to an investment strategy that involves buying securities that have high momentum or trend. Momentum investing is a popular approach to investing, as it can help investors capitalize on trends and growth opportunities. Related terms include value investing and growth investing. For instance, a momentum investor may buy stocks that have shown high returns over the past year, expecting their momentum to continue.

Multi-Factor Model: This term refers to a theoretical model that describes the relationship between the returns of an investment and multiple factors, such as size, value, and momentum. Multi-factor models are widely used in portfolio construction and risk management. Related terms include asset pricing model and risk factor. For example, a multi-factor model may be used to estimate the expected return of a stock based on its exposure to different risk factors.

Option: This term refers to a contract that gives the holder the right to buy or sell a security at a specified price. Options are widely used in investment and risk management. Related terms include call option and put option. For instance, an investor may buy a call option to speculate on the price of a stock or buy a put option to hedge against potential losses.

Passive Management: This term refers to an investment approach that involves tracking a market index or benchmark without attempting to beat the market. Passive management is a low-cost and efficient approach to investing. Related terms include active management and indexing. For example, a passive manager may track the S&P 500 index to provide broad market exposure.

Performance Evaluation: This term refers to the process of evaluating the performance of an investment or portfolio over a specified period. Performance evaluation is a key aspect of investment management, as it helps investors assess the effectiveness of their investment strategies. Related terms include return measurement and risk assessment. For instance, an investor may evaluate the performance of a portfolio using metrics such as return, risk, and Sharpe ratio.

Portfolio Diversification: This term refers to the process of spreading investments across different asset classes and sectors to manage risk. Portfolio diversification is a key strategy for reducing portfolio risk and increasing potential returns. Related terms include asset allocation and portfolio optimization. For example, a portfolio may diversify its assets by investing in stocks, bonds, and real estate.

Portfolio Optimization: This term refers to the process of identifying the optimal portfolio that balances risk and return based on an investor's investment objectives and risk tolerance. Portfolio optimization is a key aspect of investment management, as it helps investors achieve their financial goals. Related terms include asset allocation and portfolio diversification. For instance, an investor may use portfolio optimization to identify the optimal portfolio that balances risk and return.

Portfolio Rebalancing: This term refers to the process of adjusting a portfolio's asset allocation to maintain its target or optimal portfolio. Portfolio rebalancing is a key aspect of investment management, as it helps investors maintain their investment objectives and risk tolerance. Related terms include portfolio optimization and asset allocation. For example, an investor may rebalance a portfolio by selling stocks and buying bonds to maintain its target asset allocation.

Portfolio Risk: This term refers to the risk that a portfolio's value will fluctuate due to changes in market conditions. Portfolio risk is a major concern for investors, as it can have a significant impact on their wealth and financial goals. Related terms include market risk and credit risk. For instance, investing in a stock market can pose significant portfolio risk due to fluctuations in market conditions.

Quantitative Analysis: This term refers to the process of evaluating the performance of an investment or portfolio using mathematical models and statistical techniques. Quantitative analysis is a key approach to investment research and decision-making. Related terms include fundamental analysis and technical analysis. For example, a quantitative analyst may use mathematical models to estimate the expected return of a stock based on its historical returns and future growth prospects.

Random Walk Theory: This term refers to a theoretical model that describes the behavior of stock prices as a random and unpredictable process. Random walk theory is a widely used approach to understanding the behavior of stock prices. Related terms include efficient market hypothesis and market efficiency. For instance, random walk theory suggests that stock prices are unpredictable and follow a random path.

Return Measurement: This term refers to the process of evaluating the return of an investment or portfolio over a specified period. Return measurement is a key aspect of investment management, as it helps investors assess the effectiveness of their investment strategies. Related terms include performance evaluation and risk assessment. For example, an investor may measure the return of a portfolio using metrics such as return, risk, and Sharpe ratio.

Risk Assessment: This term refers to the process of evaluating the risk of an investment or portfolio. Risk assessment is a key aspect of investment management, as it helps investors understand the potential risks and rewards of their investments. Related terms include performance evaluation and return measurement. For instance, an investor may assess the risk of a portfolio by evaluating its volatility, beta, and value at risk.

Risk Management: This term refers to the process of identifying, assessing, and mitigating risks associated with an investment or portfolio. Risk management is a key aspect of investment management, as it helps investors protect their wealth and achieve their financial goals. Related terms include hedging and diversification. For example, an investor may use risk management strategies such as hedging or diversification to reduce the risk of a portfolio.

Risk Tolerance: This term refers to an investor's willingness or ability to take on risk in pursuit of returns. Risk tolerance is a key consideration in investment decision-making, as it helps investors choose investments that align with their financial goals and risk preferences. Related terms include investment objective and time horizon. For instance, an investor with a low risk tolerance may prefer to invest in low-risk assets such as bonds or money market funds.

Sharpe Ratio: This term measures the ratio of a portfolio's excess return to its volatility. Sharpe ratio is a metric used to evaluate the performance of a portfolio or investment strategy. Related terms include information ratio and Sortino ratio. For example, if a portfolio has a Sharpe ratio of 0.5, it means that its excess return is 0.5 times its volatility.

Sortino Ratio: This term measures the ratio of a portfolio's excess return to its downside risk. Sortino ratio is a metric used to evaluate the performance of a portfolio or investment strategy. Related terms include Sharpe ratio and information ratio. For instance, if a portfolio has a Sortino ratio of 0.5, it means that its excess return is 0.5 times its downside risk.

Standard Deviation: This term measures the volatility or dispersion of a portfolio's or investment's returns. Standard deviation is a key metric for evaluating the risk of an investment or portfolio. Related terms include variance and volatility. For example, if a portfolio has a standard deviation of 10%, it means that its returns are expected to fluctuate by 10% over a specified period.

Systematic Risk: This term refers to the risk that is inherent in the market or system as a whole. Systematic risk is a major concern for investors, as it can have a significant impact on their wealth and financial goals. Related terms include market risk and unsystematic risk. For instance, investing in a stock market can pose significant systematic risk due to fluctuations in market conditions.

Technical Analysis: This term refers to the process of evaluating the price and volume of a security to identify trends and patterns. Technical analysis is a key approach to investment research and decision-making. Related terms include fundamental analysis and quantitative analysis. For example, a technical analyst may use charts and technical indicators to identify trends and patterns in a stock's price and volume.

Time Horizon: This term refers to the length of time that an investor has to achieve their investment objectives. Time horizon is a key consideration in investment decision-making, as it helps investors choose investments that align with their financial goals and risk preferences. Related terms include investment objective and risk tolerance. For instance, an investor with a long time horizon may prefer to invest in high-risk assets such as stocks, while an investor with a short time horizon may prefer to invest in low-risk assets such as bonds or money market funds.

Tracking Error: This term measures the difference between a portfolio's returns and its benchmark returns. Tracking error is a metric used to evaluate the performance of a portfolio or investment strategy. Related terms include information ratio and alpha. For example, if a portfolio has a tracking error of 2%, it means that its returns are 2% different from its benchmark returns.

Value at Risk (VaR): This term measures the potential loss of a portfolio or investment over a specified period with a given confidence level. VaR is a key metric for evaluating the risk of an investment or portfolio. Related terms include expected shortfall and downside risk. For instance, if a portfolio has a VaR of 10% with a 95% confidence level, it means that there is a 5% chance that the portfolio will lose more than 10% over a specified period.

Volatility: This term refers to the fluctuation in the price or value of an investment or portfolio over time. Volatility is a key metric for evaluating the risk of an investment or portfolio. Related terms include standard deviation and variance. For example, if a portfolio has a volatility of 10%, it means that its returns are expected to fluctuate by 10% over a specified period.

Yield: This term refers to the return on an investment, expressed as a percentage of the investment's price or face value. Yield is a key metric for evaluating the performance of an investment or portfolio. Related terms include interest rate and dividend yield. For instance, if a bond has a yield of 5%, it means that its return is 5% of its face value.

Zero-Coupon Bond: This term refers to a type of bond that does not make interest payments and is sold at a discount to its face value. Zero-coupon bonds are widely used in investment and risk management. Related terms include coupon bond and strip. For example, a zero-coupon bond may be used to hedge against interest rate risk or to generate returns in a low-interest-rate environment.