

The optimal asset allocation for capital preservation: an evidence from an Australian portfolio / Riznaldi Akbar

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Deskripsi Lengkap: <https://lib.ui.ac.id/detail?id=20470656&lokasi=lokal>

Abstrak

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This study analyzes optimal asset mix for Australian portfolios with the main investment objective for capital preservation. An alternative measure of risk of annual maximum drawdown has been used to reflect investor preference for capital preservation as opposed to conventional risk measure of standard deviation and variance. The contribution of the study is two folds. First, this study has put different perspective to look at portfolio risk in the view of capital preservation. Second, the optimal weight for asset class mix that minimizes annual maximum drawdown has been analyzed for the case of Australian market. The results suggest that for capital preservation, investors should expect lower returns and need to put a greater allocation on less risky assets such as cash or bond. To this end, cash and bond have provided stable long term annual returns along with contained level of annual maximum drawdowns. In contrast, when investors demand higher expected return, they should increase asset allocation into stocks (equities) market at the expense of higher maximum drawdowns.