

Development of an Index for Asset Class in Ex-Ante Portfolio Management

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Abstract : Volatile market environment is inevitable. Fund managers are struggling to choose the right strategy to survive and overcome uncertainties and adverse market movement. Therefore, finding certainty in the mist of uncertainty future is one of the key performance objectives for fund managers. Current available theoretical results are not practical due to strong reliance on the investment assumption made. This paper is to identify the component that can be forecasted in Ex-ante setting which is the realistic situation facing a fund manager in the actual execution of asset allocation in portfolio management. Partial lease square method was used to generate an index with 10 years accounting data from 191 companies listed in KLSE. The result shows that the index reflects the inner nature of the business and up to 30% of the stock return can be explained by the index.

Keywords : active portfolio management, asset allocation ex-ante investment, asset class, partial lease square

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