

Optimization of Black-Litterman Model for Portfolio Assets Allocation

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Abstract : Present paper is concerned with portfolio management with Black-Litterman (B-L) model. Considered stocks are exclusively limited to large companies stocks on US market. Results obtained by application of the model are presented. From analysis of collected Dow Jones stock data, remarkable explicit analytical expression of optimal B-L parameter τ , which scales dispersion of normal distribution of assets mean return, is proposed in terms of standard deviation of covariance matrix. Implementation has been developed in Matlab environment to split optimization in Markovitz sense from specific elements related to B-L representation.

Keywords : Black-Litterman, Markowitz, market data, portfolio manager opinion

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