

Meucci's Program for Asset Allocation

FM5031/2
Practitioner
Sequence

John Dodson

Summary

- ▶ detect market invariance
 - ▶ select the invariants
- ▶ estimate the market
 - ▶ specify the distribution of the invariants
 - ▶ decide on approach to dealing with heteroskedasticity
- ▶ model the market
 - ▶ project the invariants to the horizon
 - ▶ map the invariants back to market prices
- ▶ define investor optimality
 - ▶ objective
 - ▶ satisfaction
 - ▶ constraints
- ▶ collect manager experience
 - ▶ prior on the market vector parameters
- ▶ determine optimal allocation
 - ▶ two-step approach
- ▶ decide on approach to handling estimation risk
 - ▶ re-sampling
 - ▶ robust extension