

Ibrahim Mbithi

Portfolio Asset Allocation. Exploring the Case for Continued Reliance on Financial Economic Models by Asset Managers

Master's Thesis

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ABSTRACT

In this paper, I address the theme of asset allocation in a pension fund portfolio using passive index funds and exchange-traded funds (ETFs). To illustrate this, I have created five model portfolios according to CAPM (Capital Asset Pricing Model) and MPT (Modern Portfolio Theory) models. My results are interesting because one of the five portfolios comes on top of the rest as a suitable portfolio for the pension fund. Since many investors are not experts, they usually leave the responsibility of managing their asset portfolios to asset managers. And in order to attract as many investors as possible to their boutiques, asset managers will harp on about their superior portfolio returns that beat the market. To beat the market they incur transaction costs which lower returns for investors. Most investors have come to acknowledge that capital markets are efficient thus the idea about beating them is a false proposition. In the face of this reality, asset managers and investors have turned to passive investment strategies. I conclude that superior asset allocation and passive index investing through exchange-traded funds form a unique set of tools for pension fund investment managers.

KEYWORDS: asset allocation, CAPM, MPT, pension fund, passive index funds, ETF funds, passive strategies, active strategies

ASSET ALLOCATION: EXPLORING THE CASE FOR CONTINUING RELIANCE ON FINANCIAL ECONOMIC MODELS BY ASSET MANAGERS

By
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