

Date of the event:

On Thursday 27th January 2011
From 01:00 PM to 2:00 PM

Location:

Luxembourg School of Finance
University of Luxembourg
4 Rue Albert Borschette
2nd Floor
Modigliani Miller Auditorium (E02-003)
L-1246 Luxembourg

Registrations:

- Free seminar (with lunch included)
- Registrations by email before January 24th, 2011
- At the following address : lsf-events@uni.lu

Information:

Ms Caroline Herfroy
Tel : +352 46 66 44 6335

<http://www.lsf.lu/eng/Research/Seminars-and-Workshops>



The LSF is pleased to invite you to the following lunch seminar:

The Efficiency of Ratio Models in Performance Measurement – The Case of Private Banking Portfolios

*By Assistant Professor Katrin Baedorf
WHU – Otto Beisheim School of Management
Vallendar, Germany*



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The Efficiency of Ratio Models in Performance Measurement – The Case of Private Banking Portfolios

By Katrin Baedorf

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LSF Seminar

Performance measurement in Private Banking is especially challenging. First, the risk model needs to reflect not normally distributed returns and asymmetric preferences. Second, illiquid assets should be considered. Third, due to the intransparency it is hard to define a benchmark. This study is the first to analyze the effects of a broad set of performance models in the context of Private Banking with a unique data set that represents typical risk and return patterns. We conduct an extensive analysis of ratio models that define performance simply as return per risk unit. Thereby we propose a new methodology to take illiquid assets into account. We find that one-dimensional ratio models mostly have an extremely low discriminatory power. Thus, the Sharpe Ratio might still be a good choice although it uses very restrictive underlying assumptions. However, reflecting the different attitudes of investors towards gains and losses might generate additional insights. Data Envelopment Analysis models can be classified as multidimensional ratio models and have a much higher discriminatory power. This holds for liquid components as well as for total wealth including illiquid assets. Thus, the use of DEA models might be a better choice, because they allow for a much more precise discrimination by risk and return characteristics. However, DEA models show a high sensitivity towards the choice and combination of risk and return models. Therefore, performance results should be interpreted carefully. Finally, our results show that taking illiquid assets into account makes a difference. Therefore a holistic approach to performance measurement in Private Banking should always refer to total wealth.

