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Jump and Dynamic Asset Allocation Strategy of Institutional Investors with Prospect Theory

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Abstract

This paper analyzes the optimal dynamic asset allocation problem of institutional investors in economy with infrequent events. In the United States, investors indirectly invest their wealth in financial markets through institutional investors are now over 60 percent, and in other countries, the figure for individual ownership is much lower than in the United States. Although institutional investors do matter in financial market, they are seriously ignored in financial theory. Besides, traditional asset allocation theory is challenged by jumps. Jumps generate more extreme realizations than implied by a normal distribution. The risk of a sudden large shock to security price is one of the inherent hazards of investing in financial markets. There are many recent examples of jump. The risk of jumps in security prices change the standard dynamic portfolio choice problem. With jumps, investors must also consider the effects of large security price changes when selecting a dynamic portfolio strategy.

Key words : Institutional investor; Prospect theory; Dynamic asset allocation;
Jump asset allocation

中文摘要：機構投資人；展望理論；動態資產配置；跳躍資產配置