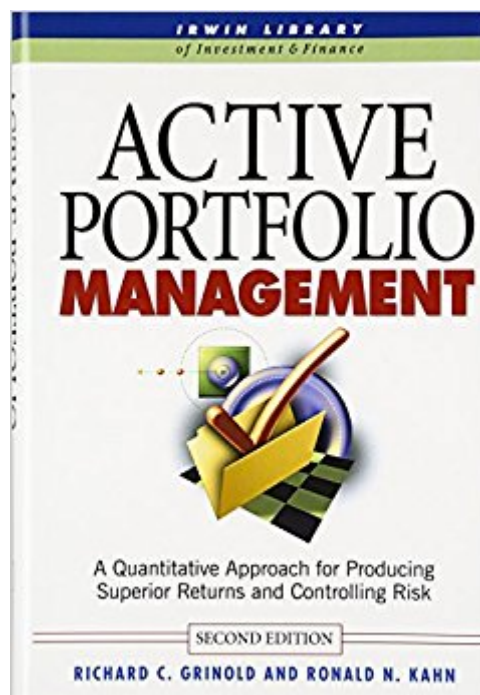




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# Active Portfolio Management: A Quantitative Approach For Producing Superior Returns And Controlling Risk



## Synopsis

"This new edition of Active Portfolio Management continues the standard of excellence established in the first edition, with new and clear insights to help investment professionals." -William E. Jacques, Partner and Chief Investment Officer, Martingale Asset Management. "Active Portfolio Management offers investors an opportunity to better understand the balance between manager skill and portfolio risk. Both fundamental and quantitative investment managers will benefit from studying this updated edition by Grinold and Kahn." -Scott Stewart, Portfolio Manager, Fidelity Select Equity ÃÂ® Discipline Co-Manager, Fidelity Freedom ÃÂ® Funds. "This Second edition will not remain on the shelf, but will be continually referenced by both novice and expert. There is a substantial expansion in both depth and breadth on the original. It clearly and concisely explains all aspects of the foundations and the latest thinking in active portfolio management." -Eric N. Remole, Managing Director, Head of Global Structured Equity, Credit Suisse Asset Management.

Mathematically rigorous and meticulously organized, Active Portfolio Management broke new ground when it first became available to investment managers in 1994. By outlining an innovative process to uncover raw signals of asset returns, develop them into refined forecasts, then use those forecasts to construct portfolios of exceptional return and minimal risk, i.e., portfolios that consistently beat the market, this hallmark book helped thousands of investment managers. Active Portfolio Management, Second Edition, now sets the bar even higher. Like its predecessor, this volume details how to apply economics, econometrics, and operations research to solving practical investment problems, and uncovering superior profit opportunities. It outlines an active management framework that begins with a benchmark portfolio, then defines exceptional returns as they relate to that benchmark. Beyond the comprehensive treatment of the active management process covered previously, this new edition expands to cover asset allocation, long/short investing, information horizons, and other topics relevant today. It revisits a number of discussions from the first edition, shedding new light on some of today's most pressing issues, including risk, dispersion, market impact, and performance analysis, while providing empirical evidence where appropriate. The result is an updated, comprehensive set of strategic concepts and rules of thumb for guiding the process of-and increasing the profits from-active investment management.

## Book Information

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## Customer Reviews

An Innovative Approach to Portfolio Management. Blending the Most Profitable Aspects of Analytical and Quantitative. Professional acclaim for Active Portfolio Management, 2nd edition.

"Active Portfolio Management is a unique reference for understanding the source of value-added by a money manager. I am an enthusiastic supporter of the methodology used in the book, and I highly recommend it to both the professional and academic communities." -Professor William N.

Goetzmann, Director, International Center for Finance, Yale University School of Management.

"This edition of Active Portfolio Management continues the standard of excellence established in the first edition, with new and clear insights to help investment professionals." -William E. Jacques,

Partner and Chief Investment Officer, Martingale Asset Management. "Active Portfolio Management offers investors an opportunity to better understand the balance between manager skill and portfolio risk. Both fundamental and quantitative investment managers will benefit from studying this updated edition by Grinold and Kahn." -Scott Stewart, Portfolio Manager, Fidelity Select Equity <sup>®</sup>

Discipline, Co-Manager, Fidelity Freedom <sup>®</sup> Funds. "This second edition will not remain on the shelf, but will be continually referenced by both novice and expert. There is a substantial expansion in both depth and breadth on the original. It clearly and concisely explains all aspects of the foundations and the latest thinking in active portfolio management." -Eric N. Remole, Managing

Director, Head of Global Structured Equity, Credit Suisse Asset Management. "Active Portfolio Management, Second Edition, remains a readable yet theoretically and mathematically rigorous book that one would expect from two such distinguished authors. I heartily recommend this book to any practitioner who wants to refine his or her knowledge of state-of-the-art quantitative money management or who would like a straightforward reference to quickly answer those thorny theoretical questions that hit us now and again." -Michael Even, Managing Director and Chief of Global Quantitative Analysis, Citibank Global Asset Management. "A more comprehensive

examination of quantitative techniques for portfolio management would be hard to find. Active Portfolio Management is an outstanding treatise on the methods and techniques of measuring performance and risk control that is both rigorous and understandable." -Jon A. Christopherson, Research Fellow, Frank Russell Company.

Richard C. Grinold, Ph.D., is Managing Director, Advanced Strategies and Research at Barclays Global Investors. Dr. Grinold spent 14 years at BARRA, where he served as Director of Research, Executive Vice President, and President; and 20 years on the faculty at the School of Business Administration at the University of California, Berkeley, where he served as the chairman of the finance faculty, chairman of the management science faculty, and director of the Berkeley Program in Finance. Ronald N. Kahn, Ph.D., is Managing Director in the Advanced Active Strategies Group at Barclays Global Investors. Dr. Kahn spent 11 years at BARRA, including over seven years as Director of Research. He is on the editorial advisory board of the Journal of Portfolio Management and the Journal of Investment Consulting. Both authors have published extensively, and are widely known in the industry for their pioneering work on risk models, portfolio optimization, and trading analysis; equity, fixed income, and international investing; and quantitative approaches to active management.

The Kindle rendition is an utter disaster and sheer disappointment. For one, there are typos. The print edition and the kindle version do not match. For example, where the Greek letter sigma is used in the text, the Kindle would replace it with some Latin letters such as "s" or even an "o". Secondly, the Equations are stored as tiny images. That means, if you increase the text size, the equations still remain tiny. If you change the font and background colour, the equations will still remain the same colour. Also, if you zoom into the image, it becomes blurred.

There's three basic categories of quants. Structurers, risk managers and traders. Structurers don't need this book. They should go buy Hull and be happy. Every risk manager and trader in the business needs this book. When I was first introduced to this book, I figured it was more or less only for their money management business a manual for building Barclays Index Plus funds. That is what Grinold and Kahn do for a living, and they probably wrote the book to have something to give to dumb pupils who don't know anything. The book certainly covers some of the details and models used in money management tasks. However, this book is a lot more than that. They didn't write a book about specific investment instances that come up. They write a book which generalizes well to

all fields involving information under uncertainty. They don't talk much about futures or options; this really is about equities, but if you're trading in those other markets, you still need this book. Yes, you actually do need some calculus and linear algebra to read the book. It's written for people who understand math; it's a book on \*quantitative\* finance -not "seat of pants" trading. Even if you skip the mathematics (and most of the heavy stuff is kept neatly tucked away in appendices, so as not to frighten the MBAs and small children), you're likely to get something out of it: at least you'll have a vague idea of what the propeller heads in the white laboratory jackets are up to. What I find most remarkable about the book is how it rewards upon rereadings. Got a trading problem? There is probably a section in this book which relates to it. When I'm banging my head on a problem, and getting no joy from the google machine, Grinold and Kahn's book often has something which at least points me to the answer. This is a remarkable quality, as the book really was, as far as I can tell, written to help out with the kinds of tasks they face at BGI. If you're a former physics nerd, the classic physics book it most resembles for me is the Landau & L. (won't let me say the other guy's name) book on classical mechanics. The clarity and density of G&K's book very much resemble L&L. Like L&L, it can be used as a first text on this sort of thing. You may prefer to get your basics elsewhere; I liked learning mechanics from Goldstein for example, but once I knew my p's and q's, I tossed Goldstein and just read L&L when I needed professional insight. G&K is like this; theirs is the book that you'll keep around as a reference once you have a handle on the basics whether you learn the basics from them or not. Personally, I would have liked a little more meat on non-parametric statistics, maybe some overarching Bayesian framework and some ideas on backtesting, a la bootstrap resampling, but it would probably change the tenor of the book and reduce its utility for what they do at work. Still, they'll probably read this review, and if they take requests, that's mine.

Excellent book for whom is looking for a practical approach that at the same time is presented through a rigorous mathematical methodology. The book is absolutely superior over the academic textbooks that usually limit themselves to CAPM and efficient market theory. Grinold and Kahn go much forward and at the same time had managed to clearly and meticulously show the CAPM model, its limitations and the more sophisticated tools developed from it. Beside of showing the active way of managing a portfolio, the serious mathematical presentations through which the different theories such as CAPM are described are very convincing of how difficult it could be to beat the market.

This book was recommended to me as the bible of active management. I attempted reading it several times, but gave up every time. Coming from a science and engineering background, I find the exposition verbose, yet lacking a ground-up derive-from-fundamentals approach. Even in the description of CAPM, I cannot tell the assumptions from the conclusions of the theory. The book is not an easy read, but I don't think that's because the subject is inherently hard. Update: I've found "Quantitative Equity Portfolio Management: An Active Approach to Portfolio Construction and Management" by Chincarini and Kim to be a good alternative. Update 2: Please see Timothy Falcon Crack's response to my review. Having read his books, I really respect his opinion. He calls this book "masterpiece", and he says he ended up writing another book (Foundations for Scientific Investing) to make understanding the subject easier. You may want to check it out first.

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My first impression of the kindle version is negative because it doesn't have a indexed table of contents . The rest of the book seems fine for a quantitative aproach active portfolio management book.

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