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Papers

Adjusting for risk:: An improved Sharpe ratio

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Abstract

This paper proposes a new rule for risk adjustment and performance evaluation. This rule is a generalization of the well-known Sharpe ratio criterion, and under normal conditions enables a manager to correctly assess alternative risky investments. The rule is superior to existing rules such as the standard Sharpe rule and the RAROC, and can make a substantial difference in estimates of required returns.



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JEL classification

G10; G11

Keywords

Sharpe ratio; Risk adjustment; Performance evaluation

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