

Translating Modern Portfolio Theory

Frequently Asked Questions

Can investors gain a competitive edge by trying to exploit market anomalies?

According to professor Kenneth French, of the Fama-French three-factor model, it's not worth it to even try.

French said, "Do I think it's a good use of my time to try to identify mistakes in the market? Absolutely not."¹

Do riskier assets provide higher returns?

Risk and expected return are related.

Riskier assets provide higher *expected* returns.

They will not necessarily provide higher returns. That is the nature of risk.

Is it prudent to add high-risk asset classes to a portfolio?

Adding noncorrelating asset classes to a portfolio — even those that are high risk on their own — can reduce its volatility and increase expected return.