



Research Paper Number 120

Omega Portfolio Construction with Johnson Distributions

Author:

Alexander PASSOW - Gottex Fund Management and FAME

Date:

November 2004

This paper has now been published and is no longer available as a part of our Research Paper Series. The published text can be found with the following reference:

Alexander Passow "Omega Portfolio Construction with Johnson Distributions" Risk, April 2005, vol. 18, Issue 4.

Abstract:

The omega risk-adjusted performance measure with Johnson distributions accounts comprehensively and non-discretionarily for the first potentially persistent moments including skewness and kurtosis. The Johnson-omega ratio thus overcomes the shortcomings of other measures and is inherently less sensitive to input data noise and to changes of the threshold than empirical omega. Alexander Passow derives an explicit representation of the Johnson-omega ratio that was successfully tested in a hedge fund portfolio optimization framework using both historical and forward-looking performances of individual indexes.