



Home

(/)

My Account (/openid-connect/sams-sigma/login-redirect?prompt=login&openid\_connect\_destination=/content/iiinvest/20/1/108&custom\_message=You%27ll%20n

Find topics, articles or authors...

Selected Topic: All topics

## Risk Parity Portfolio vs. Other Asset Allocation Heuristic Portfolios

Denis Chaves, Jason Hsu, Feifei Li, Omid Shakernia

The Journal of Investing Spring 2011, 20 ( 1 ) 108 - 118

DOI: 10.3905/joi.2011.20.1.108

- Download PDF
- Add to Favorites
- Share
- Labels
- Cite
- Alerts



### The Journal of Investing Vol 20 Issue 1

(/content/iiinvest/20/1)

Volume 20, Issue 1

Spring 2011 (/content/iiinvest/20/1)

(/content/iiinvest/20/1)

Log in (/openid-connect/sams-sigma/login-redirect?prompt=login&openid\_connect\_destination=/content/iiinvest/20/1/108) to access this content or Request a Demo (/Request-Demo)



Log in (/openid-connect/sams-sigma/login-redirect?prompt=login&openid\_connect\_destination=/content/iiinvest/20/1/108)

Request a Demo (/Request-Demo)

Focus (/highwire\_display/entity\_view/node/92688/content\_tabs)

- Article
- Authors

### Abstract

In this article, the authors conduct a horse race between representative risk parity portfolios and other asset allocation strategies, including equal weighting, minimum variance, mean-variance optimization, and the classic 60/40 equity/ bond portfolio. They find that the traditional risk parity portfolio construction does not consistently outperform (in terms of risk-adjusted return) equal weighting or a model pension fund portfolio anchored to the 60/40 equity/bond portfolio structure. However, it does significantly outperform such optimized allocation strategies as minimum variance and mean-variance efficient portfolios. Over the last 30 years, the Sharpe ratios of the risk parity and the equal-weighting portfolios have been much more

Gookies Settings

Reject All

Accept All Cookies

stable across decade-long subperiods than either the 60/40 portfolio or the optimized portfolios. Although risk parity performs on par with equal weighting, it does provide better diversification in terms of risk allocation and thus warrants further consideration as an asset allocation strategy. The authors show, however, that the performance of the risk parity strategy can be highly dependent on the investment universe. Thus, to execute risk parity successfully, the careful selection of asset classes is critical, which, for the time being, remains an art rather than a formulaic exercise based on theory.

**TOPICS:** [Portfolio management/multi-asset allocation \(https://www.pm-research.com/topic/other-2\)](https://www.pm-research.com/topic/other-2), [quantitative methods \(https://www.pm-research.com/topic/quantitative-methods-0\)](https://www.pm-research.com/topic/quantitative-methods-0), [volatility measures \(https://www.pm-research.com/topic/volatility-measures\)](https://www.pm-research.com/topic/volatility-measures).

[Download PDF](#)

[Add to Favorites](#)

[Share](#)

[Labels](#)

[Cite](#)

[Alerts](#)

[Previous \(https://www.pm-research.com/content/lijinvest/20/1/99\)](https://www.pm-research.com/content/lijinvest/20/1/99)

[Next](#)

[Back to top](#) 

Related Topics

- Portfolio Management in Theory and Practice
- Portfolio Construction
- Performance Measurement
- Risk Management in Theory and Practice
- VAR and Alternative Risk Measures
- Quantitative Finance
- Statistical Methods

THE JOURNAL OF

INVESTING

Special Issue on Trading

We're searching for articles on Trading that could include:

✓ Recent trends in institutional trading costs across all asset classes

✓ Using pre-trade TCA to construct and implement optimal portfolios

✓ Advances in global post-trade TCA

✓ Dynamics in Systematic Internalizer and Central Risk Book liquidity

✓ New venues and novel trading methodologies

✓ Effects of recent volatility and interest rate movements on trading costs

✓ Impact of retail investor activity on institutional trading

✓ Innovation and the role of data and analytics in fixed income trading

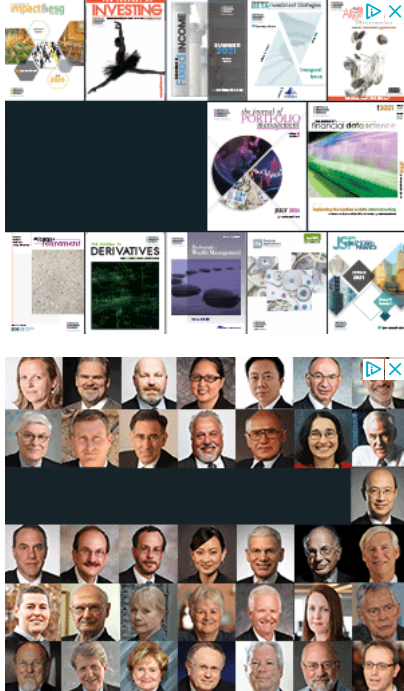
Submit your research NOW

By clicking "Accept All Cookies", you agree to the storing of cookies on your device to enhance site navigation, analyze site usage, and assist in our marketing efforts.

[Cookies Settings](#)

Reject All

Accept All Cookies



Discover relevant topic-led research across more than 60 investment disciplines

About

(/about-us)

Contact

(/contact-us)

Locations

New York

41 Madison Avenue  
20th Floor  
New York, NY 10010  
646 931 9045

London

One London Wall  
By clicking "Accept All Cookies", you agree to the storing of cookies on your device to enhance site navigation, analyze site usage, and assist in our marketing efforts.  
London, EC2Y 5EA  
0207 139 1600

Hong Kong

[Cookies Settings](#)

Reject All

Accept All Cookies

Explore our Research

By Topic

- [Portfolio Management in Theory and Practice \(/topic/portfolio-management-theory-and-practice\)](/topic/portfolio-management-theory-and-practice)
- [Quantitative Finance \(/topic/quantitative-finance\)](/topic/quantitative-finance)
- [Economics and Financial History \(/topic/economics-and-financial-history\)](/topic/economics-and-financial-history)
- [Risk Management in Theory and Practice \(/topic/risk-management-theory-and-practice\)](/topic/risk-management-theory-and-practice)
- [Asset Classes \(/topic/asset-classes\)](/topic/asset-classes)
- [Regulation, Taxation, Governance, and Compliance \(/topic/regulation-taxation-governance-and-compliance\)](/topic/regulation-taxation-governance-and-compliance)

By Journal

- [Portfolio Management \(/content/iijpormgmt\)](/content/iijpormgmt)
- [Financial Data Science \(/content/iijjfds\)](/content/iijjfds)
- [Impact & ESG Investing \(/content/pmrjesg\)](/content/pmrjesg)
- [Fixed Income \(/content/iijfixinc\)](/content/iijfixinc)
- [Investing \(/content/iijinvest\)](/content/iijinvest)
- [Derivatives \(/content/iijderiv\)](/content/iijderiv)
- [Alternative Investments \(/content/iijaltinv\)](/content/iijaltinv)
- [Retirement \(/content/iijretire\)](/content/iijretire)
- [Wealth Management \(/content/iijwealthmgmt\)](/content/iijwealthmgmt)
- [Beta Investment Strategies \(/content/iijindinv\)](/content/iijindinv)
- [Structured Finance \(/content/iijstrfin\)](/content/iijstrfin)
- [Trading \(/content/iijtrade\)](/content/iijtrade)
- [Private Equity \(/content/iijpriveq\)](/content/iijpriveq)
- [Practical Applications \(/pa-reports\)](/pa-reports)

© 2023 With Intelligence Ltd (<https://withintelligence.com/>) | All material subject to strictly enforced copyright laws.

[Cookies \(https://www.pageantmedia.com/cookies/\)](https://www.pageantmedia.com/cookies/)

[Code of ethics \(/code-of-ethics\)](/code-of-ethics)

[Terms & conditions \(https://www.pageantmedia.com/terms/\)](https://www.pageantmedia.com/terms/)

[Privacy policy \(https://withintelligence.com/privacy/\)](https://withintelligence.com/privacy/)

By clicking "Accept All Cookies", you agree to the storing of cookies on your device to enhance site navigation, analyze site usage, and assist in our marketing efforts.

[Cookies Settings](#)

Reject All

Accept All Cookies