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Do Investors Dislike Kurtosis?

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Posted: 21 Feb 2007

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Abstract

We show that decreasing absolute prudence implies kurtosis aversion. The "proof" of this relation is usually based on the identification of kurtosis with the fourth centered moment of the return distribution and a Taylor approximation of the utility function. A more sound analysis is required, however, as such heuristic arguments have been shown to be logically flawed.

Keywords: Empirical finance, Kurtosis, Moment orderings, Portfolio selection

JEL Classification: C4, G1

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