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A requiem for the use of the geometric mean in evaluating portfolio performance

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Abstract

Although the geometric mean procedure is very popular among financial analysts, it is shown that when it is applied on rates of returns for evaluating portfolio performance it does not produce efficient results. Valuable past performance information is ignored since the geometric mean procedure applied on rates of returns uses only three specific pieces of information, namely the initial value, the terminal value and the total number of time periods under evaluation.