

# Post-Modern Portfolio Theory – An Introduction

[ A work in progress ... ]

## Post-Modern Portfolio Theory

Post-Modern Portfolio Theory attempts to address the myriad shortcomings of Modern Portfolio Theory outlined briefly by Swisher and Kasten in their [2005 article](#)<sup>1</sup> in the Journal of Financial Planning.

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The [Sortino ratio](#)<sup>2</sup> improves on the Sharpe ratio by recognizing the asymmetry of returns and the preference for upside risk. In the formulation below right  $f(x)$  is the probability density function of the returns. The numerator is the excess return and the denominator is a measure of downside risk, with  $T$  being the minimal acceptable return, often the risk free rate. Obviously, the Sortino ratio is more difficult to assess.

$$S = \frac{R - T}{\sqrt{\int_{-\infty}^T (T - x)^2 f(x) dx}}$$

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<sup>1</sup> [http://www.fpanet.org/journal/articles/2005\\_Issues/jfp0905-art7.cfm](http://www.fpanet.org/journal/articles/2005_Issues/jfp0905-art7.cfm)

<sup>2</sup> [http://en.wikipedia.org/wiki/Sortino\\_ratio](http://en.wikipedia.org/wiki/Sortino_ratio)