ABSTRACT

This paper aims to provide an application of the Black-Litterman model methodology in market practice to Thai portfolio manager by using Thai market as proxy of estimation. To be superior than previous Thai research paper, subjective views, as an input of Black-Litterman model, can be derived from putting historical return itself in GARCH modeling to forecast return and variance of view. Also, the comparison of return performance between traditional mean-variance model by minimizing portfolio risk given specified constraint and Black-Litterman model will be extensively conducted by using different data frequency such as daily and monthly and different number of stock in portfolio. The in-sample data selected for estimating optimum weight by rolling window methodology will be performed to estimate portfolio return during out-sample period. Also, to quantify the sensitivity of model, weight turnover is calculated from absolute change of optimum weight in every estimation period. High weight turnover means the model has more sensitivity to input.

From the result of investment period between 2008 to 2010 and 2009 to 2010, Black-Litterman model return can surpass the market capitalized weight based on selected stock as market universe in most cases. When comparing with traditional Minimum variance portfolio model by using daily data, Black-Litterman model performance is always lower and have higher weight turnover. However, by using monthly data, the result shows inconclusive result when comparing performance from those 2 models.