

ACTIVE PORTFOLIO MANAGEMENT BY APPLYING THE TREYNOR-BLACK MODEL

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ABSTRACT

This paper presents the theory of active portfolio management through the application of the Treynor-Black model. The main objective is to show the positive impact of active portfolio management in terms of return and risk, thereby allowing a positive move of the utility function of a risk-averse investor, these benefits can be realized from the incorporation of securities with abnormal returns whose market prices are different from their equilibrium values. The results obtained support this fact, but also show that when the abnormal returns are very high, it may result in a portfolio of risky assets to focus too much on those stocks with abnormal returns generating greater exposure to unsystematic risk.

Keywords: Active Portfolio Management, Treynor Black Model, Abnormal Returns, Utility Function, Risk and Return.