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Notional portfolios and normalized linear returns

Vic Norton

(Submitted on 28 Apr 2011)

The vector of periodic, compound returns of a typical investment portfolio is almost never a convex combination of the return vectors of the securities in the portfolio. As a result the ex post version of Harry Markowitz's "standard mean-variance portfolio selection model" does not apply to compound return data. We propose using notional portfolios and normalized linear returns to remedy this problem.

Subjects: **Portfolio Management (q-fin.PM)**

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