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For Immediate Release

Contact: Mike MacMillan
MacMillan Communications
212.473.4442
mike@macmillancom.com

"DECONSTRUCTING BLACK-LITTERMAN" IS PUBLISHED; NEW PAPER CHALLENGES EFFECTIVENESS OF WIDELY EMPLOYED PORTFOLIO OPTIMIZATION PROCESS

BOSTON, (March 7, 2013) – "Deconstructing Black-Litterman: How to Get the Portfolio You Already Knew You Wanted," a new paper challenging the investment effectiveness of the academic standard and widely-employed Black-Litterman (BL) portfolio optimization process, has been published by Richard O. Michaud, David N. Esch, and Robert O. Michaud of New Frontier Advisors (NFA), it was announced today.

This highly controversial paper concludes that claims that BL optimization is able to solve the investment limitations associated with classical Markowitz mean-variance (MV) optimization are not supportable by the evidence.

The authors show that *ad hoc* "market" portfolio assumptions drive the process and that the estimation error associated with portfolio optimization in practice is solved by simply ignoring it. Their analysis demonstrates that BL optimization shares all of the limitations of mean-variance optimization it was designed to solve.

"Black-Litterman provides a framework for academic teaching and the investment of hundreds of billions of dollars around the globe," said Richard Michaud. "Our research finds very significant limitations of this process in practice. In particular, the reverse optimization procedure that is the basis of the method is a highly dangerous investment framework that is divorced from capital market reality and unlikely to be effective as an asset management framework. The attractiveness

of the BL procedure is due to convenience rather than effective asset management and is not recommendable relative to alternatives."

The NFA paper was initially published by the peer-reviewed *Journal of Investment Management*. A copy of the paper can be found by going to

http://www.newfrontieradvisors.com/Research/Articles/documents/BLJOIM.pdf.

About New Frontier Advisors
New Frontier is a Boston-based research and registered investment advisory firm specializing in the development and application of state-of-the-art investment technology. Founded in 1999 by the inventors of the world's first broad spectrum, patented, provably effective portfolio optimization process, the firm continues to pioneer new developments in asset management. New Frontier's services help institutional investors worldwide select and maintain more effective portfolios. More information is available at www.newfrontieradvisors.com.

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