

5. Conclusion

Mean-variance optimization has since its origination been the most popular method for asset allocations. The popularity could be due to the understandable premise on which it sorts assets. However, in practice, the mean-variance-portfolios are often very concentrated in only a few assets and do not reflect the views of the investor. In order to cope with these problems, investors often constrain the mean-variance model in such way that the possible portfolios lie in a bandwidth they are comfortable with. Black and Litterman (1992) set out to alleviate these problems by making a model that would result in intuitive portfolios and a model that could be used by investors.

The purpose of this study is to apply the popular Black-Litterman model for fund of funds. We carry out two simulations to compare the two methods. In the first simulation, we find the intuitiveness of the Black-Litterman model. In the second simulation, we find the stability of the Black-Litterman model.