

A Survey of Investment Performance Appraisal Methods with Special Reference to Data Envelopment Analysis

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Abstract: This paper offers a review of investment performance appraisal methods. The review starts with an exhaustive coverage of various methods ranging from early measures of risk-adjusted return to more recent methods including the rating given by ASSIRT, a financial services organisation that assesses managed investment in Australia. We then extend the discussion to performance evaluations based on the concept of production frontier estimation. Primarily, there are two competing theories of frontier estimation, known as stochastic frontier estimation and data envelopment analysis (DEA). DEA enables the inclusion of many factors in the analysis in addition to the usual return and risk measures and therefore is widely used in empirical studies in finance. The DEA methodology and its application in the finance sector are discussed in detail.

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