

Growth Optimization with Downside Protection: A New Paradigm for Portfolio Selection, by
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Abstract

This study introduces growth optimization with downside protection as a portfolio selection technique based on power-log utility functions that combine long-term portfolio growth maximization with the behavioral tenets of prospect theory. This simple but powerful technique can be used with all types of assets, including those with highly skewed and fat-tailed return distributions. We use three assets with very different types of return distributions to show how effective this technique is in constructing portfolios with positively skewed returns that combine high upside potential with downside protection.