

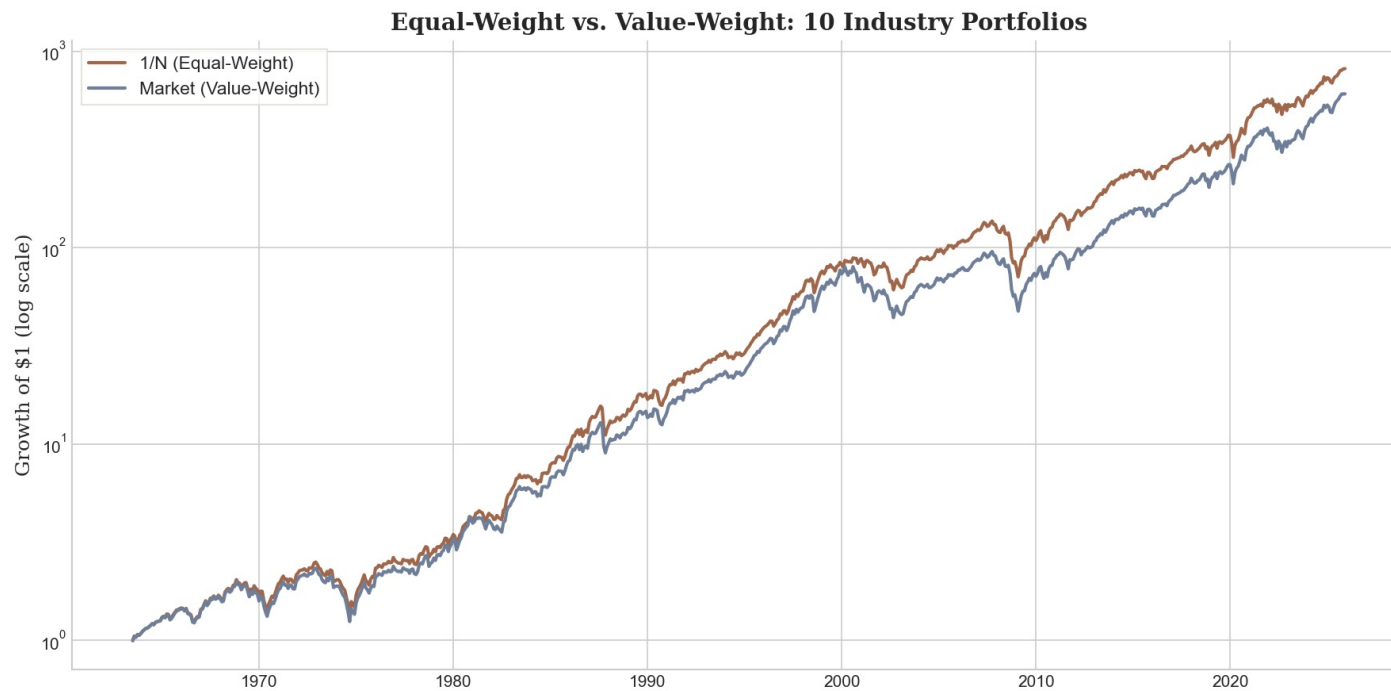
Naïve Portfolio Management?

- Rabbi Isaac Bar Aha's rule for asset allocation (4th Century):

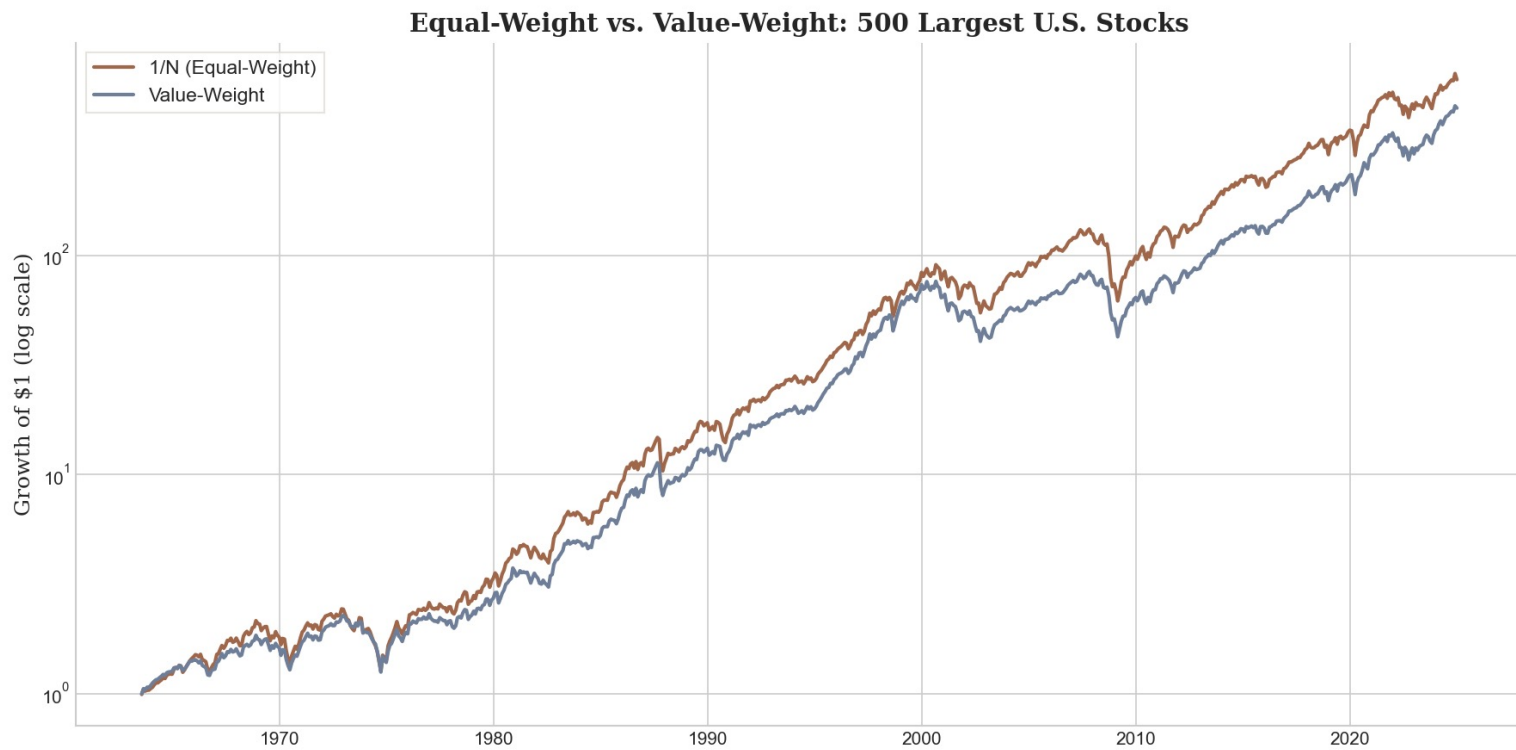
One should always divide his wealth into three parts: a third in land, a third in merchandise, and a third ready to hand.

- Seems at odds with Mean-Variance Optimization
- Q. How good is this "naïve" strategy?

EW vs. VW: Industry Portfolios

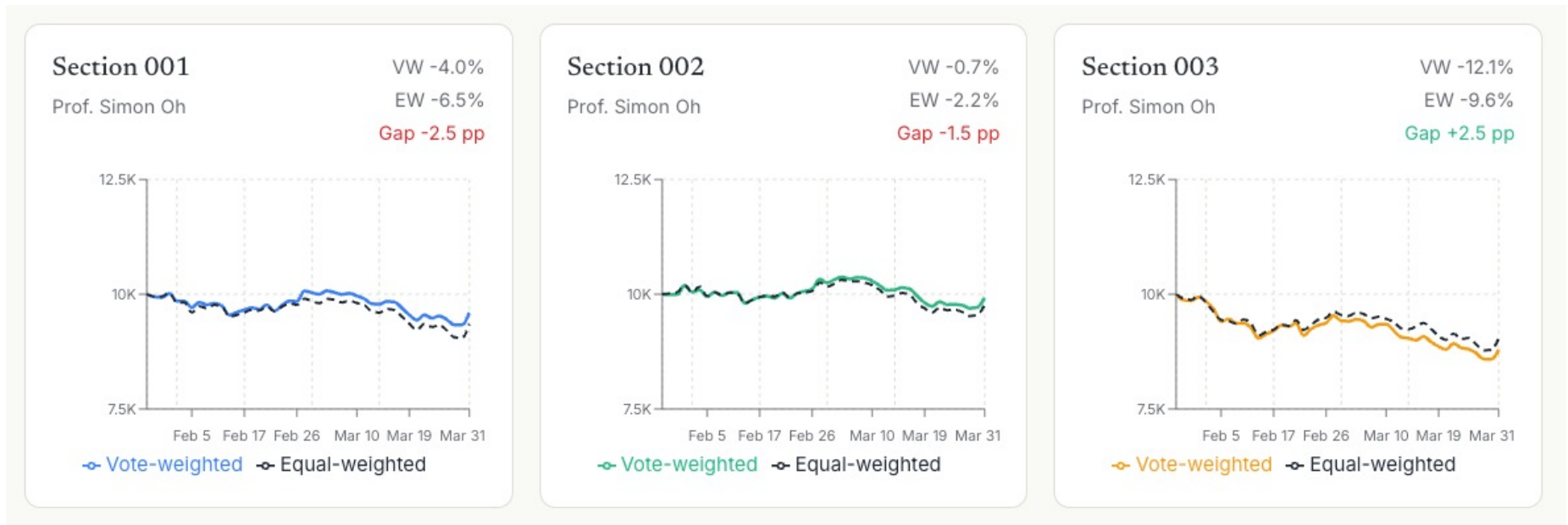


EW vs. VW: Individual Stocks



EW vs. VW: Class Portfolios

<https://cmi-cbs.github.io/2026spring/>



A Horse Race (DeMiguel, Garlappi, Uppal, 2020)

Naive	
0. $1/N$ with rebalancing (<i>benchmark strategy</i>)	ew or $1/N$
Classical approach that ignores estimation error	
1. Sample-based mean-variance	mv
Bayesian approach to estimation error	
2. Bayesian diffuse-prior	Not reported
3. Bayes-Stein	bs
4. Bayesian Data-and-Model	dm
Moment restrictions	
5. Minimum-variance	min
6. Value-weighted market portfolio	vw
7. MacKinlay and Pastor's (2000) missing-factor model	mp
Portfolio constraints	
8. Sample-based mean-variance with shortsale constraints	mv-c
9. Bayes-Stein with shortsale constraints	bs-c
10. Minimum-variance with shortsale constraints	min-c
11. Minimum-variance with generalized constraints	g-min-c
Optimal combinations of portfolios	
12. Kan and Zhou's (2007) "three-fund" model	mv-min
13. Mixture of minimum-variance and $1/N$	ew-min
14. Garlappi, Uppal, and Wang's (2007) multi-prior model	Not reported

Why might EW perform better?

- No Room for Estimation Error
- Avoids Extreme Positions
- Diversification (avoids putting too much capital in a few names)
- Less turnover and trading costs
- Rebalancing premium (Trim winners, add losers)
- Market price can be misleading