The Hong Kong Polytechnic University
Department of Applied Mathematics

Financial Mathematics Seminar

On

Portfolio Selection under Prospect Theory

by

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Abstract

In this talk I shall report recent progress on continuous-time behavioral portfolio selection under Kahneman and Tversky's (cumulative) prospect theory, featuring S-shaped utility functions and probability distortions. It is shown that the model well-posedness becomes a prominent issue in such a behavioral model. The optimal terminal wealth positions, derived in fairly explicit forms, possess surprisingly simple structure reminiscent of a gambling policy betting on a good state of the world while accepting a fixed, known loss in case of a bad one. If time permits I will also discuss on the single-period model and the equity premium puzzle.

Date : **30 November, 2007 (Friday)**

Time : **4:30 – 5:30 p.m.**

Venue : **Departmental Conference Room HJ610**
The Hong Kong Polytechnic University

***** ALL ARE WELCOME *****