

PART VI Sharpe optimization model

Step 1 Calculate Treynor ratio & give rank highest to lowest

$$TR = \frac{ER - R_f}{\beta}$$

Step 2 Calculate cut off point

$$C = \frac{\sigma_m^2 \times \sum \left(\frac{ER - R_f}{\sigma_{e,i}^2} \right) \beta_i}{1 + \left(\sigma_m^2 \times \sum \frac{\beta_i}{\sigma_{e,i}^2} \right)}$$

Step 3 Select the stock having Treynor's ratio is more than highest cut off.

Step 4 Calculation of Weights of Stocks

$$Z_i = \frac{\beta_i}{\sigma_{e,i}^2} \times \left(\frac{ER - R_f}{\beta_i} - \text{highest cut off} \right)$$