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Asset Allocation Decisions for Private Banking Clients: A China Experience

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Abstract: Building on Markowitz's seminar study (1952,) studies on asset allocation decisions by investors typically focus on the efficient frontier from a mean-variance perspective. Given the efficient set, investors shall choose according to their risk-return preference represented by a utility function, typically resulting an asset allocation choice in the form of linear combination between cash, which is riskless, and the "optimal" combination of risky assets (Tobin, 1958.)This study looks at how different types of investors actually make their asset allocation decisions. Based on evidence obtained from private bankers who manages wealth for High Net Worth Individuals (HNWIs,) and private banking client classification in Chung (2014,) we found evidence which suggests that asset allocation decisions made by this group is rather different from that proposed in the literature.

Key words: Asset Allocation, Diversification, Investment Decisions, Portfolio, Portfolio Choice, Private Banking.

JEL: G11, G21

1. Introduction

Since Markowitz's seminar study (1952) a plethora of research has been devoted to the studying of asset allocation decisions by investors. Since then, studies including Brinson et. al (1986), Brinson et. al (1991), Bogle (1994) and others have found evidence supporting the view that asset allocation decision represents a main determinant to portfolio