A parametric bootstrap to evaluate portfolio allocation models

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Highlights

- Traditional Mean-Variance (MV) solution predicts Sharpe ration poorly in the out-of-sample.
- A parametric bootstrap method improves the estimation of the predictive Sharpe ratio before the investors invests capital.
- The parametric bootstrap is advantageous because it includes the estimation errors and gives the most likely Sharpe ratio that the investor would expect.
- The underlying assumptions for the bootstrap method are no more than those for the MV model.