

Building Efficient Portfolios using Multiple Scorecards

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Abstract

We consider methods for constructing credit portfolios in scenarios where more than one scorecard is available to the portfolio manager. Methods have been described in the literature for choosing between scorecards in a manner that is efficient with respect to sets of conflicting business objectives, such as profit, market share, and management of risk. Here we show that strategies that involve randomizing over the choice of scorecard can be employed to give portfolios that are superior to deterministic strategies with respect to expected value, though inferior with respect to variance. We also consider the problem of constructing a credit portfolio in a manner that takes into account forecasts of future economic scenarios. We describe how randomized scorecard selection strategies relate to the construction of efficient portfolios, under an assumption that a relationship can be established between economic scenarios and the discriminatory power of scorecards.

Keywords: portfolio optimization, decision-making under risk, risk measures, economic scenarios.