Abstract:

Interconnectedness of risks may result in high systematic risk. When the number of risks are fixed, maximizing diversification benefits can lower the portfolio risk. In this work, the risk concentration is used to maximize diversification benefits, which is applied to portfolio selection. Since explicit solutions to such optimization problems are generally not available, asymptotic analysis is conducted as an alternative way to study them. A consistent and asymptotic normal estimator of the asymptotic solution is established as well.