

PORTFOLIO ALLOCATION BASED ON PRICE EARNINGS RATIOS

Ronald W. Best, University of West Georgia, Carrollton, GA, USA
Charles W. Hodges, University of West Georgia, Carrollton, GA, USA
James A. Yoder, University of West Georgia, Carrollton, GA, USA

[dx.doi.org/10.18374/JIFS-14-1.13](https://doi.org/10.18374/JIFS-14-1.13)

ABSTRACT

We examine the risk-return tradeoff for investors using price-earnings ratios to allocate funds across bonds and stocks. Sharpe ratios are computed for portfolios consisting of 100% bonds, 100% stock, and portfolios annually changing between bonds, stocks, and mixed portfolios based on the beginning of year price-earnings ratio. Holding periods from one to 25 years are examined. Simulated portfolio returns are used to calculate Sharpe ratios for all holding periods. Our results show that price-earnings ratio based investment rules generate portfolios with higher Sharpe ratios than investing only in bonds or stocks.

Keywords: *investor, risk-return, portfolio*