Benchmarks, Bullies and (re)Balancing

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In this contribution we analyse and discuss the use of an equal weighted index as an alternative to the market capitalisation (cap weighted) index as a benchmark for active equity portfolios. We consider the South African equity market as a relevant example.

Our findings indicate that equal weighted portfolios are, in general, more efficient than cap weighted portfolios and that random active portfolios tend to display significantly improved risk-return characteristics when using an equal weighted index as a benchmark. We find our results are robust to transaction costs involved with rebalancing.

We also demonstrate the link between rebalancing of equal weighted portfolios and the diversification benefit using the S&P500.