Analyst Guide
POWERED BY SOLEADEA

CFA LEVEL 1

Must-Understand CFA Relations

E-BOOK

SAMPLE

The kurtosis of a normal distribution always equals ______. So for platykurtic distributions, kurtosis is less than _________ and for leptokurtic ones, greater than _____________.

The excess kurtosis of a normal distribution is __________. For leptokurtic distributions, excess kurtosis is _____________. The excess kurtosis of platykurtic distributions is ____ __________.

Fat tails means that the probability of extreme results (namely very low or very high ones) is _______ than in the case of a normal distribution.

The values of the Sharpe ratio are used to compare the performance of portfolios. Portfolios with _______ Sharpe ratios are perceived as better, as they achieve greater mean excess return per unit of standard deviation.

The greater the coefficient of variation, the greater the ________________. So, if – for example – you compare the performance of two investment funds, the fund with the greater coefficient of variation will be characterized by ____________.

Find answers on the next page →

→ The kurtosis of a normal distribution always equals **3**. So for platykurtic distributions, kurtosis is less than **3** and for leptokurtic ones, greater than **3**.

→ The excess kurtosis of a normal distribution is **zero**. For leptokurtic distributions, excess kurtosis is **greater than zero**. The excess kurtosis of platykurtic distributions is **less than zero**.

→ Fat tails means that the probability of extreme results (namely very low or very high ones) is **higher** than in the case of a normal distribution.

→ The values of the Sharpe ratio are used to compare the performance of portfolios. Portfolios with **higher** Sharpe ratios are perceived as better, as they achieve greater mean excess return per unit of standard deviation.

$$S_R = \frac{\overline{R}_p - \overline{R}_f}{s_p}$$

Where:

- $\overline{R}_p$ – mean return on the portfolio,
- $\overline{R}_f$ – mean return on a risk-free asset,
- s_p – standard deviation of return on the portfolio.

→ The greater the coefficient of variation, the greater the **risk per unit of the arithmetic mean.** So, if – for example – you compare the performance of two investment funds, the fund with the greater coefficient of variation will be characterized by **greater risk**.

$$CV = \frac{s}{\overline{X}}$$

Where:

- CV – coefficient of variation,
- $\overline{X}$ – sample mean,
- s – sample standard deviation.

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find out more at:

https://analyst.guide/#relations