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Presentation 3 – Model Solution
Linear-additive value portfolio value functions

The assignment was not too demanding, basically any example illustrating a situation in which the value gained by adding an asset to the portfolio changes depending on the assets already existing in the portfolio. Liesiö (2014) mentioned a few examples in the introduction.

Example:

We are choosing stocks for our portfolio. If the current portfolio is filled with stocks that historically performed well (Apple, Microsoft, etc.) then the value added by adding a more risky and speculative stock (Gamestop, a new tech startup etc.) could be higher than if the portfolio already consisted of many risky options.