



Managerial Finance

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A scenic landscape featuring a paved road that curves into the distance. The road has a yellow dashed center line and white solid edge lines. The surrounding terrain is a mix of green grass and brownish soil. In the background, there are large, rugged mountains with light-colored rock faces. The sky is a clear, bright blue with some light, wispy clouds. The overall atmosphere is bright and open.

Chapter IV

Risk & Return

Annualizing a holding period return

Annualize the return
=
Investment over one year

Investment of less than one year

Investment over more than one year

Calculating Annualized HPR

Is the number of years in holding period

$$\text{Annualized HPR} = (1 + \text{Holding Period Return})^{1/n} - 1$$

The percentage of return in decimal

Example

Investment X which gave 20% over 2 years

$$\text{Annualized HPR} = (1 + \text{Holding Period Return})^{1/n} - 1$$

$$\text{Annualized HPR} = (1 + 0.2)^{1/2} - 1$$

$$\text{Annualized HPR} = 1.095 - 1$$

$$\text{Annualized HPR} = 0.095$$

* 100

$$\text{Annualized HPR} = 9.5\%$$

Note

$$\text{Annualized HPR} = (1 + \text{Holding Period Return})^{1/n} - 1$$

Substitute n by number of months divided by 12

In months

$$\text{Annualized HPR} = (1 + \text{Holding Period Return})^{1/(5/12)} - 1$$