

Abstract

My thesis will focus on optimal investment decisions, especially those that are planned for longer investment horizon. I will review the literature, showing that changes in investment opportunities can alter the risk-return tradeoff over time and that asset return predictability has an important effect on the variance and correlation structure of returns on bonds, stocks and T bills across investment horizons. The main attention will be given to pension funds, which are institutional investors with relatively long investment horizon. I will find the term structure of risk-return tradeoff in the empirical part of this paper. Later on I will add some variables into the model and investigate whether it can improve the results. Finally the optimal investment strategies will be constructed for various levels of risk tolerance and the results will be compared with strategies of Czech pension funds. I am going to use data from Thomson Reuters Datastream, Wharton Research Data Services and additionally from some other sources.