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Corrigendum

Paul Pfleiderer has pointed out an error in Admati and Ross (1985), which, when corrected, *strengthens* one of our major points; namely, risk-return measures are generally inappropriate for identifying superior performance that is based on superior information.

The inequality ii in theorem 1 should be reversed. (Compare eqq. [15] and [16]!) That is, the conditional variance of returns given both the true payoff (or future price) and current price is *higher* if and only if the information is superior in the sense of (9). As a result, the comparison of utility functions other than exponential in inequality v of theorem 1 and in corollary 1 is not possible (i.e., it yields ambiguous results). Also, corollary 3 does not follow from theorem 1, and, in fact, it is false: Sharpe's reward-to-variability ratio, even calculated conditional on payoffs and prices, does *not* measure superior performance. (Nor does it measure inferior performance; the inequality in [18] is ambiguous.)

The subsequent results, particularly those concerning unconditionally calculated risk-return measures, remain correct. What is more and stronger is that this approach is not saved even calculating reward-to-variability ratios conditional on payoffs (and prices), at least in the context of our model.

While the measurement of investment performance in rational expectations models is quite difficult, it was not our intent to make this point by a personal demonstration, and we apologize for any inconvenience we might have caused the reader.

Reference

Admati, A. R., and Ross, S. A. 1985. Measuring investment performance in a rational expectations equilibrium model. *Journal of Business* 58 (January): 1–26.

(*Journal of Business*, 1986, vol. 59, no. 2, pt. 1)

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