

Revisiting the Kelly Criterion
or
How to Get Rich with Retail Credit

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Abstract

We revisit the Kelly Criterion [1956] for maximizing long-run wealth to give us an indication of the growth rates that can be expected with optimal capital allocations under risk and yield assumptions that are consistent with retail credit portfolios. Allocations smaller than the optimum provide a slightly smaller expected growth rate and lower volatility while slightly larger allocations provide a smaller expected growth and higher volatility in compounded returns.

Keywords: Credit Risk, Retail Credit Portfolio, Kelly Criterion, Capital Allocations