

New techniques for optimal investment in markets with frictions

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We present a method that can be applied in illiquid markets to show the existence of optimal strategies for agents with a very general preference structure: e.g. non-concave utilities are allowed as well as probability distortions in the spirit of cumulative prospect theory. The method is based on an extension of Skorohod's representation theorem, due to Adam Jakubowski. We point out how similar ideas can be applied in markets with proportional transaction costs as well. The talk is based on joint work with Ngoc Huy Chau.