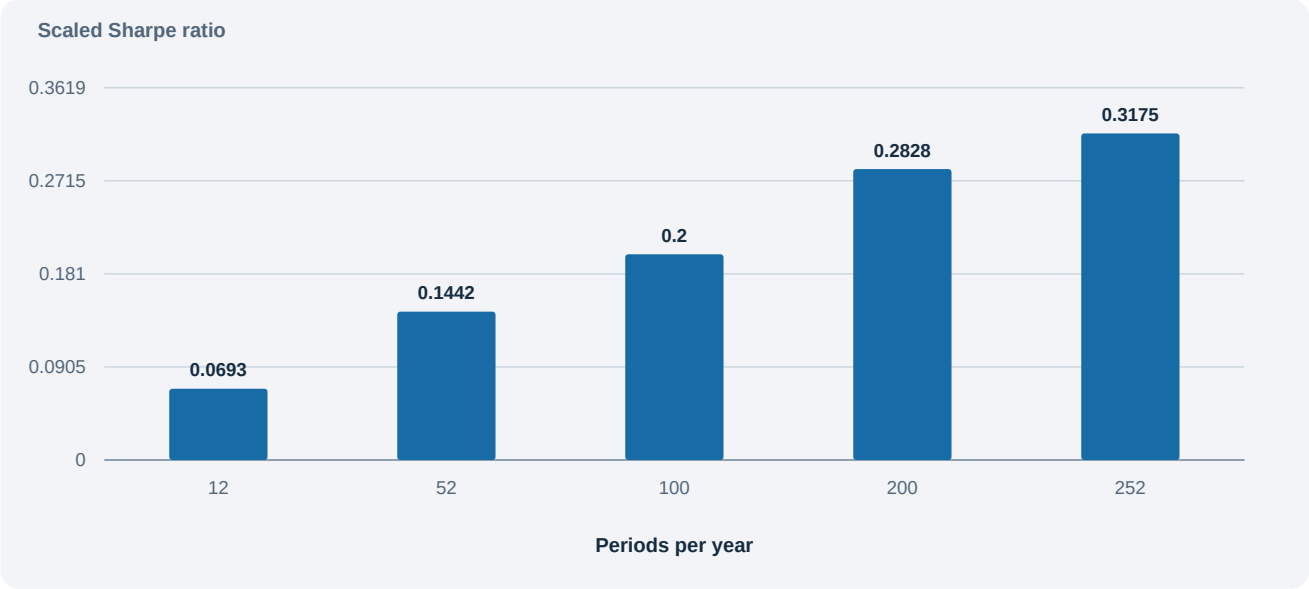
Simplified periodic Sharpe ratio

Research and evaluation | Original synthetic example | Edition 2026-11-26

A periodic Sharpe ratio divides mean periodic excess return by its standard deviation. A common annualization multiplies by the square root of periods per year under restrictive assumptions.

FORMULA Annualized Sharpe = mean excess / SD x sqrt(periods per year)

SCENARIO 01: Mean excess return 0.02%; period SD 1%



WORKED EXAMPLE

Using 252 periods, (0.02 / 1) x sqrt(252) = 0.3175; dependence and non-normal tails are not modeled.

COMMON MISTAKE

Comparing ratios with different return frequencies or inconsistent risk-free conventions is misleading.

BEFORE YOU USE THE CALCULATION

1. Align excess return and SD periods.
2. Require a nonzero SD.
3. Inspect skew, tails and serial dependence.

COMPARE TWO MORE INPUT SETS

Scenario 05: Mean excess return 0.06%; period SD 1%. Using 252 periods, (0.06 / 1) x sqrt(252) = 0.9525; dependence and non-normal tails are not modeled.

Scenario 10: Mean excess return 0.11%; period SD 1%. Using 252 periods, (0.11 / 1) x sqrt(252) = 1.75; dependence and non-normal tails are not modeled.

Synthetic values are not historical market data. Educational material; trading can result in substantial losses.