

## Using Investor Utility to Determine Portfolio Choice with REITs

Wei Feng  
College of Business and Management  
Lynn University  
3601 N. Military Trail  
Boca Raton, FL 33431-5507  
561-237-7534  
[wfeng@lynn.edu](mailto:wfeng@lynn.edu)

Travis L. Jones\*  
Lutgert College of Business  
Florida Gulf Coast University  
10501 FGCU Blvd. South  
Fort Myers, FL 33965-6565  
239-590-7167  
[tljones@fgcu.edu](mailto:tljones@fgcu.edu)

Marcus T. Allen  
Lutgert College of Business  
Florida Gulf Coast University  
10501 FGCU Blvd. South  
Fort Myers, FL 33965-6565  
239-590-7321  
[timallen@fgcu.edu](mailto:timallen@fgcu.edu)

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*Keywords:* REITs, Target Fund, Efficient Frontier, Portfolio

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### **Abstract**

This paper examines the decision of individual investors to allocate a portion of their existing investment portfolios to REITs. It first derives the risk preferences of investors represented by their benchmark portfolios of stocks and bonds. Such risk preferences are then used for portfolio decisions regarding REITs. The analysis shows that investors with lower risk aversion tend to have a more substantial stock component in their benchmark portfolio and will obtain higher risk-return benefits from adding REITs. In addition to the theoretical analysis, the paper provides a practical solution to evaluate the benefit of investing in REITs.

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