

Multiple Discriminant Analysis

Multiple discriminant analysis is a statistical technique that uses quantifiable variables to classify populations into groups that will display certain forecastable characteristics. The members of a population that score high on a certain test will have a high probability of displaying a certain behavior or feature; those that score low will have low probability of displaying a certain behavior or feature.

Multiple discriminant analysis has many practical uses in financial and security analysis. It is used in credit analysis to determine if individuals with certain demographic and other characteristics will exhibit a high probability of defaulting on debt or not.

Perhaps the most famous use of multiple discriminant analysis was by Edward Altman to develop his Altman Z-Scores to classify publicly traded firms into groups of firms that will go bankrupt and those that will not go bankrupt.