Treynor Index

Treynor Index is a statistic developed to measure risk-adjusted return performance of a portfolio (it could be applied to an investment or even an individual). It is similar to the Jensen Index. Both the Jensen Index and the Treynor index try to capture the phenomenon known as alpha, or risk-adjusted return.

However, the Jensen Index is a simple difference between the return of a portfolio and the return the portfolio should have based on the Capital Asset Pricing Model (CAPM); the Treynor Index is the risk premium earned per unit of risk taken. The formula for the Treynor Index is given by

$$T_p = \frac{\overline{r}_p - r_f}{\beta_p}$$

$T_p = Treynor\ Index\ for\ the\ Portfolio$
$\overline{r}_p = Expected\ Return\ of\ Portfolio$
$r_f = Risk\ Free\ Rate$
$\beta_p = Beta\ of\ the\ Portfolio$