Lecture Notes 7

Optimal Risky Portfolios: Efficient Diversification

I. Readings and Suggested Practice Problems
II. Correlation Revisited: A Few Graphical Examples

III. Standard Deviation of Portfolio Return: Two Risky Assets
IV. Graphical Depiction: Two Risky Assets
V. Impact of Correlation: Two Risky Assets
VI. Portfolio Choice: Two Risky Assets
VII. Portfolio Choice: Combining the Two Risky Asset Portfolio with the Riskless Asset

VIII. Applications

IX. Standard Deviation of Portfolio Return: \( n \) Risky Assets
X. Effect of Diversification with \( n \) Risky Assets
XI. Opportunity Set: \( n \) Risky Assets
XII. Portfolio Choice: \( n \) Risky Assets and a Riskless Asset

XIII. Additional Readings

Buzz Words: Minimum Variance Portfolio, Mean Variance Efficient Frontier, Diversifiable (Nonsystematic) Risk, Nondiversifiable (Systematic) Risk, Mutual Funds.
I. Readings and Suggested Practice Problems

BKM, Chapter 8.1-8.6.
Suggested Problems, Chapter 8: 8-14

E-mail: Open the Portfolio Optimizer Programs (2 and 5 risky assets) and experiment with those.