COROLLARY 1.   A restricted version of the optimal portfolio (8) under assumption 1 is characteristics-based demand:

$$\frac{w_{i,t}(n)}{w_{i,t}(0)} = \delta_{i,t}(n)$$

$$= \exp\left\{\beta_{0,i,t}\mathrm{me}_t(n) + \sum_{k=1}^{K-1}\beta_{k,i,t}x_{k,t}(n) + \beta_{K,i,t}\right\}\epsilon_{i,t}(n). \tag{10}$$

We refer to equation (10) as characteristics-based demand because the portfolio weights depend on log market equity, other observed characteristics, and unobserved characteristics. An important question is whether