Elton Gruber – C\*

Error Variance = Variance of Stock – Beta Square \* Variance of Market

Risk = square root of (square of (projected beta \*Market Risk) + Error Variance)

Treynor Ratio = (Proj. Return – Risk Free Return)/Proj. Beta

Contribution (Ci) = (Square of Market Risk \* (Cumulative of (Excess Return \* beta/error var)))/( 1 + square of market risk \* cumulative of ( beta square/error var))

C\* = max of all Ci’s

Zi = beta square/error variance of stock \* ((treynor – C\*)/beta)

Weights = Zi/ Sum of all Zi’s