1. Start from a set of pricing factors F_{t+1}.
2. Reduce this set of factors to a few dominant components, Z_{t+1}, using principal components analysis.
3. Produce separate individual forecasts of each of the Z_{t+1}, that is measures of $\mathbb{E}_t[Z_{t+1}]$.
4. To measure the conditional expected factor returns, apply these forecasts to factors using their loadings on the dominant components.
5. ~~To engage in factor timing or estimate the SDF, use these forecasts to construct the portfolio given in Equation (10).~~