

Investments and Derivatives Notes

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1 Financial Markets

1.1 Assets and Securities

- An *asset* is anything that has economic value.
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2 Modern Portfolio Theory

2.1 Summary

- We have some investors trying to figure out how to allocate their wealth across an arbitrary portfolio of risky assets.
- We started with only risky investments available for this investor and came up with a two fund theorem that we can characterize the optimal portfolio choice of the investor, if they have mean variance preferences.
- Next, we introduced a risk free asset into this portfolio.