

Efficient Frontier

Economic significance:

- Minimum-variance frontier consists of portfolios with least risk for specified mean return, so no portfolios exist to the left of this frontier.
- Efficient frontier consists of portfolios with highest mean return for specified level of risk, so risk-averse investor must invest in portfolio on this frontier in order to maximise expected utility (of wealth).
- Tangency portfolio has the highest possible Sharpe ratio.

