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ANNUAL REVIEW OF FINANCIAL ECONOMICS (/CONTENT/JOURNALS/FINANCIAL) **Volume 2, 2010** (/content/journals/financial/2/1).

Portfolio Theory: As I Still See It


Harry M. Markowitz (/search?value1=Harry+M.+Markowitz&option1=author&noRedirect=true&sortField=prism_publicationDate&sortDescending=true)¹

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Vol. 2:1-23 (Volume publication date December 2010)

First published as a Review in Advance on September 29, 2010

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Abstract

This essay summarizes my views on (a) the foundations of portfolio theory and its applications to current issues, such as the choice of criteria for practical risk-return analysis, and whether some form of risk-return analysis should be used in fact; (b) hypotheses about actual financial behavior, as opposed to idealized rational behavior, including two proofs of the fact that expected-utility maximizers would never prefer a multiple-prize lottery to all single-prize lotteries, as asserted in one of my 1952 papers; and (c) a simple proof of the theorem (which was initially greeted with some skepticism, especially by referees) that investors in capital asset pricing models do not get paid for bearing risk.

Keyword(s): [capital asset pricing model](/search?value1=%22capital+asset+pricing+model%22&option1=pub_keyword) (/search?value1=%22capital+asset+pricing+model%22&option1=pub_keyword), [Friedman-Savage](/search?value1=%22Friedman-Savage%22&option1=pub_keyword) (/search?value1=%22Friedman-Savage%22&option1=pub_keyword), [MPT](/search?value1=%22MPT%22&option1=pub_keyword) (/search?value1=%22MPT%22&option1=pub_keyword), [prospect theory](/search?value1=%22prospect+theory%22&option1=pub_keyword) (/search?value1=%22prospect+theory%22&option1=pub_keyword), [stochastic dominance](/search?value1=%22stochastic+dominance%22&option1=pub_keyword) (/search?value1=%22stochastic+dominance%22&option1=pub_keyword).

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