

- Investors hold the same Risky Portfolio M (tangency portfolio) and Risk-free asset ( $R_f$ )  
[Different weights for risk-free and M ; depending on their preference]
- Market Demand = Sum of Individual's holding  
⇒ M must be market portfolio
- Investors hold portfolio along Capital Market Line (CML) ; High risk , High return  
Investors face with variations of the returns on efficiently diversified portfolio ( $\sigma_p = a\sigma_M$ )  
Variance is a good measure of risk of efficiently diversified portfolio
- Investor do not hold any other portfolio/individual asset  
Variance is not a good measure of risk for any other portfolio or individual asset
- For any other portfolio/individual asset,  
Investors care about “its risk contribution” in the market portfolio or marginal impact on total market portfolio risk.