Correction as of January 2007

Insert on page 101 after first paragraph that ends: ...of your money into B and part into P.

An alternative way of pursuing the same analysis is to plot and examine the relationship between the mean returns and the inverse of the standard deviation. In terms of the graph of mean return and the inverse of the standard deviation, it is easy to see that the optimal choice will involve picking points as far out on the upper right hand side as are available; the investor wants to maximize mean return subject to minimizing variance or maximizing the inverse of the standard deviation.

From Figure 4.3A, it is clear that the optimal portfolio choice is on the line that runs from "P" to "B". "W" just does not quite make the optimum cut. A mixture of investments in "P" and in "B" is called a portfolio and enables the investor to maximize his personal tradeoffs between return and variance of return.

Figure 4.3A