Efficient Portfolio

The efficient portfolios are the portfolios that results in the lowest possible risk for a given level of return, or the highest possible return for a given level of risk. “Efficient portfolios” is a term that is generally credited to Harry Markowitz in his work on portfolio theory in the early 1950s.

Markowitz showed how quadratic programming could be used to calculate a set of efficient portfolios. This set of efficient portfolios is called an “efficient frontier.”

Markowitz’s work on efficient portfolios and efficient frontiers was then used by Sharpe, Lintner, and Mossin to develop the Capital Asset Pricing Model (CAPM) in the 1960s.