***Tobin’s Two Fund Separation Theorem***

The Two Fund Separation Theorem says that the investing and financing decision are separate problems:

* The investment decision: which risky assets comprise the market portfolio? It is the purely technical problem of identifying the market portfolio – finding the weights in the risky assets which give the tangency portfolio.
* The financing decision: how much to invest in $r\_{f}$ and how much to invest in the market portfolio M? This depends on the investor’s risk preferences.

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