

# ***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.

