Risk &Portfolio Question:

You have decided to invest all your wealth in two mutual funds: A and B. Their returns and risks are as follows:

* the mean returns are *rA* = 15% and *rB*= 11%
* the covariance matrix is

|  |  |  |
| --- | --- | --- |
|  | *rA* | *rB* |
| *rA* | 0.04 | 0.025 |
| *rB* | 0.025 | 0.032 |

You want your total portfolio to yield a return of 12%. What proportions of your wealth should you invest in A and B? What is the standard deviation of the return on your portfolio?