

This talk develops a method to derive optimal portfolios and risk-premia explicitly in a general diffusion model, for an investor with power utility in the limit of a long horizon. The market has several risky assets and is potentially incomplete. Investment opportunities are driven by, and partially correlated with, state variables following an autonomous diffusion. The framework nests models of stochastic interest rates, return predictability, stochastic volatility and correlation risk.

For each relative risk aversion parameter value, the long-run portfolio, its implied risk-premia, the long-run pricing measure, and their performance on finite horizons are obtained.

In the case of a single state variable, a candidate solution is derived for the finite horizon value function, and hence optimal portfolio and pricing measure. An application to a single state variable, potentially non affine, model concludes.