

1. Nevertheless, investors, analysts, and corporate finance specialists continue to rely heavily on CAPM as a fundamental framework for contemporary portfolio theory. Portfolio Optimisation: According to the Capital Asset Pricing Model (CAPM), investors might hold a diversified portfolio of hazardous assets in proportion to their market capitalizations in order to attain the best risk–return trade–off. Cost of Capital: Businesses utilise the Capital Asset Pricing Model (CAPM) to calculate their cost of equity, which is a crucial factor in capital budgeting choices and the assessment of investment initiatives. This is how index investing works. 2.3.4.