Does the 60/40 Asset-Allocation-Pie Make Sense?

No allocation can cure the ill effects of stampeding in and out of markets

The magic asset allocation number so often touted is a 60/40 split between stocks and bonds. This is supposed to give you the growth potential of equities and the stability of fixed-income. Trouble is, that mix didn't do so well over the past 10+ years.

Most likely the reason is that almost all equity classes benefited from a spectacular 10-year bull market run prior to COVID and then an amazing bounce-back after the COVID-induced market swoon. Layer on historically low interest rates for fixed-income securities and you can see the challenge.

None of this is to say that a stock-bond mix is a bad idea. It's simply not a panacea.

Pie-Investing 101

Today, it is easier than ever to own a broadly diversified stock/bond portfolio, often represented as a pie. You can buy blended 60/40 portfolios in the form of a mutual fund. Many have a broad range of both domestic and international stocks and bonds, for a rough breakdown of 60% equities and 40% bonds.

Over the past 10+ years, target-date pie funds became popular in 401(k) plans, where the stock/bond blend shifts toward bonds progressively as you age, until you reach a retirement target date.

The latest portfolio pie offerings are from robo-advisors who place a slick Internet user interface between the investor and the fund. The replacement of a human contact with a website is what warrants the word "robo." For some

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investors, this gimmick creates a sensation of customized, technologically advanced wealth management. The number of investment pie offerings today nearly equals the number of pizza pie offerings in New York City.

But the investment pie approach is not particularly effective in avoiding major downside volatility, to say the least. It can also place a major drag on long-term investment performance.

Simple & Disciplined

What about asset allocations other than 60/40? Well, there's no elixir here, either. Sure there are lots of investment products that let you try different levels of risk: for conservative (30% stock), moderate (40%) and aggressive (70%) strategies, respectively. These investments have been around for a long time, but take a good look at their performance and risk characteristics before you invest.

While pie investing can deliver decent returns, it does have the benefits of being simple, disciplined and non-emotion-based. But if you're not careful, the average-pie-investor can perform substantially less than the disciplined-pie-investor.

Why? Because too many of these investors made emotion-driven decisions at bad times. They bail out when the stock market tanks and get in after it rebounds. And re-entry can be expensive. Fear and greed often appear to dominate the investment allocation process, alas.

The truth is that no asset allocation, regardless of its breakdown, can cure the ill effects of unwise stampeding in and out of markets.

Talk to your financial advisor.

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