All weather portfolio historical performance

(This post has been updated on 12 December 2019 and 30 March 2020) Find out more about: How I Fell in Love in All Seasons Portfolio StrategyWhat is a portfolio of all seasonsWhat I will do next? How am I going to start? Good then. The first blog of many to come to this blog I am so excited to get this project started. To be honest, I am very much looking forward to some time to write this first blog. It will be a great journey to tell you about how I'm starting to invest with All Seasons Portfolio Strategies and build it from scratch with widely available ETFs. As I want to help as much as possible to start investing responsibly and with reasonable risk exposure, I will take my journey to try to inspire, educate, and hopefully you have started as well by switching your spending habits or non-interest bearing bank accounts to accumulate enough wealth to feel safe. During the Covid-19 coronavirus outbreak, a huge number of investors realized that they had actually taken on a lot more risk in their portfolios than they were prepared. For many, this came as a surprise as it would be psychologically difficult to see a portfolio lose so much in value. Until then, it was easy to be a stock market investor during the longest bull market in history, but it didn't feel so great when the bear market and recession arrived. Many savers need to learn from the coronavirus crisis and adjust the risk of their portfolios so many savers need to learn from the coronavirus crisis and see their investments in a new light and adjust the risk of their portfolios. For most, this would mean a reduction in some of the shares in the portfolio, as well as hedging the risk of an economic downturn using other assets such as gold or government bonds. With this idea in mind, I started to figure out how I should change my portfolio to reduce the amount of risk I was exposed to, while at the same time getting good long-term returns. The risk of investment parity fits perfectly into this mentality. Searching all Seasons Portfolio I first came across the All Seasons Portfolio from Tony Robbins' book Money Master Game (a book where most savers first encounter this investment strategy, but if you don't - read) where Ray Dalio clarifies how his incredibly successful asset management firm, Bridgewater Associates, manages his clients' funds. Weather Portfolio is one of the company's most famous products and leveraged (loan-induced) portfolio with a combination of asset types that counters market risks in all market conditions - whether bull market or bear market - and with limited drawdown (how much value is lost from the previous top). The strategy is based on macro-focused investments and to achieve very good results. Ray Dalio has also developed a simplified portfolio that requires less maintenance and that gives a hedged value increase risk parity. This is the portfolio that Dalio represents in Money Master the Game. According to Tony Robbin's back-testing team, from 1984 to 2013 the portfolio made 86% annually, and the average annual loss was just under 2%. This is a phenomenal achievement. This portfolio Ray calls Portfolio of all seasons. It's a portfolio and strategy that I fell in love with because it works great for ordinary people and is easy to replicate. There is a lot of uncertainty in the stock market and financial system, so you better be prepared for any event or crisis thrown at you. In the book, Ray Dalio shares how even small people can achieve a similar portfolio, with the caveat that Ray has a lot of analysts in his hands and they constantly monitor and adjust according to market trends to maximize profits. But the core portfolio, divided between assets, can be easily replicated by you and me, which means non-professional investors and just any person you might meet on the street. This portfolio of retail investors, Ray Dalio calls All Season Portfolio, as it is not as accurate as All Weather Portfolio. The idea behind the All Seasons portfolio is also that it is easy to maintain and requires only minimal effort on the part of the investor. Rebalancing can only be done once a year, which means that only annually, you would sell something that you have too much and buy something that you have too little. So what am I going to do? Well, I'll take the asset separated from the magic formula of Ray Dalio, and translate that into low-cost ETFs (Exchange of Traded Funds) available to everyone, but not only that - I'll do it in a European environment. Most of the blogs on investing and advice regarding ETFs are unfortunately based in America, so a European perspective is needed. If you are an American however, you can easily follow the same ideas and concepts, but using ETFs are available in the United States. In addition to describing the strategy, I will be blogging about my experiences and how The All Seasons Portfolio Strategy works in practice. I'll be writing a monthly portfolio update and mixing it with some other relevant content about investing as well, so make sure to subscribe to the newsletter on the footer page or on the right side of this post. What is an all Seasons portfolio? But how is the All Seasons portfolio built fundamentally? It is a split between assets of types of bonds, stocks, gold and commodities. But they are not divided equally within the portfolio, but rather depending on their relative volatility (risk) compared to each other. Instead you get the following split: Bonds - 55% Stocks - 30%Gold - 7.5% Commodities - 7.5% Total - 100% The basis of this distribution and risk parity investment can be explained in detail, and I will do it piece by piece in my Updates. But to simplify it, stocks carry more risk risk bonds and therefore should have a smaller stake in the portfolio to make the portfolio more stable. This is also the basis for why gold and commodities have such a small share in the overall portfolio - these types of assets are even more volatile than bonds and stocks. Another great aspect of the All Seasons portfolio is that the value of each of these asset types move differently in different investment environments. The basis is that there are fundamentally two variables that move prices: inflation and economic growth. In higher-than-expected economic growth, stocks, corporate bonds, gold and commodities will prosper, while government bonds and inflation-related bonds (or TIPS in the US (Treasury Inflation Protected Securities) will fall in value. The opposite would be true in lower-than-expected economic growth in the market. And if inflation is higher than expected, commodities, gold and TIPS will rise in value, while stocks and government bonds will decline in such conditions. The tables will then be rotated if inflation is lower than expected. The biases of each asset class will thus be divided into squares in the below simple matrix: Given these biases, you end up with a portfolio, as shown in the pie chart above when weighing each asset class according to their volatility. The key will be to rebalance the portfolio through economic cycles to maintain the right splits, when different assets are stronger and others are weaker. By doing so, you will automatically buy at a low price and sell at a high price - something that might otherwise be a problem when focusing on only one asset class, such as when investing in individual stocks. For a comprehensive description of how each asset class is biased towards certain economic conditions, I strongly recommend Alex Shahidi's book Balanced Asset Distribution. Here, Shahidi explains the reasons why the above matrix looks like it looks like, for example, why stocks are doing well in conditions of higher-than-expected economic growth and low inflation, and why inflation-related bonds perform well in completely opposite conditions. What to do next - how to get started so I spent my vacation doing research at Morningstar - benchmarking institute mutual funds and ETFs - find appropriate ETFs available in Europe that at the same time are very cost effective - low costs, means that there are more left for you - and I've formed a couple of examples of portfolios with average annual management fees of low 0.2%. This is a cheap price to diversify. I admit that there will be problems to get the full effect of the All Seasons Portfolio when you start with a little money. If you have 5-6 different ETFs in your portfolio, it will be almost impossible to get the asset division right prices for each ETF unit. My advice is therefore to save up to about 4,000 euros, because then you can actually get splits in % that was described earlier. I learned it wrong by trying to buy only one ETF at a time. I learned what is best to save until you have EUR 4000 in you investment account and only then form your portfolio all Seasons. When you start, and have a smaller investment amount (less than 20,000 euros), you can balance your portfolio by buying those ETFs that you have too little. For example, if your gold part has fallen from 7.5% to 5%, you buy gold back to your original stock when you make your monthly deposit into your account. There is no need to sell any other ETFs in this case. If you have a larger portfolio, with a value of more than 20,000 euros, you can start rebalancing your portfolio at the right time intervals by selling what you have too much and then buying assets that you have too little of. You can do this either once a year or quarterly - entirely up to you. If you have a large amount of investment, it will be quite cost effective to balance the portfolio through sales and purchases, not just by adding funds. If you start with this kind of rebalancing too early, transaction costs can eat up an unnecessarily high share of added value from the rebalancing act itself. This blog is yours and my journey together and we learn by doing together. So I will be extremely transparent with my mistakes, personal finances and lessons learned here on the blog. You will see all my income and the performance of my portfolio through the good times and hard times from which the Covid-19 flash was an interesting example. So join me on this trip and always feel free to leave a comment with any input, question or feedback that you would. It is a shared experience when we learn and grow our wealth together. Find out more about my approach and game plan here. Be sure to subscribe to the newsletter (subscription form in footer) so you'll receive notifications about new blogs with ideas and market updates. Ad for NextoryWould do you prefer to listen to books about personal finance on the go? Try Nextory for free for two weeks and listen to thousands of books right from your phone. Start your free trial period today! Want to know more about all Seasons portfolio strategy before you start working on your own? Check out this great book where Bridgewater Associates shows data and stats for the All Weather Portfolio Strategy works like small drawdowns compared to stock indices and reasoning for splits to achieve risk parity. This book is a showcase of the data behind the strategy, so it's a good read if you still 100% convinced it's a wise strategy for non-professional investors like you and I. Also go take a look at my list list The best portfolio books of all seasons and risk parity investing for more inspiration. Tags: All Weather Portfolio January 26, 2020 February 4, 2020 March 9, 2019 2019 ray dalio all weather portfolio historical performance