

REVISITING “RETHINKING INVESTING IN A POST-60/40 WORLD”

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This article is relevant to financial professionals who are considering offering Model Portfolios to their clients. If you are an individual investor interested in WisdomTree ETF Model Portfolios, please inquire with your financial professional. Not all financial professionals have access to these Model Portfolios.

We last wrote specifically about the [Siegel-WisdomTree](#) Model Portfolios back in [January 2020](#). It is well past time for an update.

Let's remind ourselves of the investment mandates we were solving for when we built these Model Portfolios back in 2019.

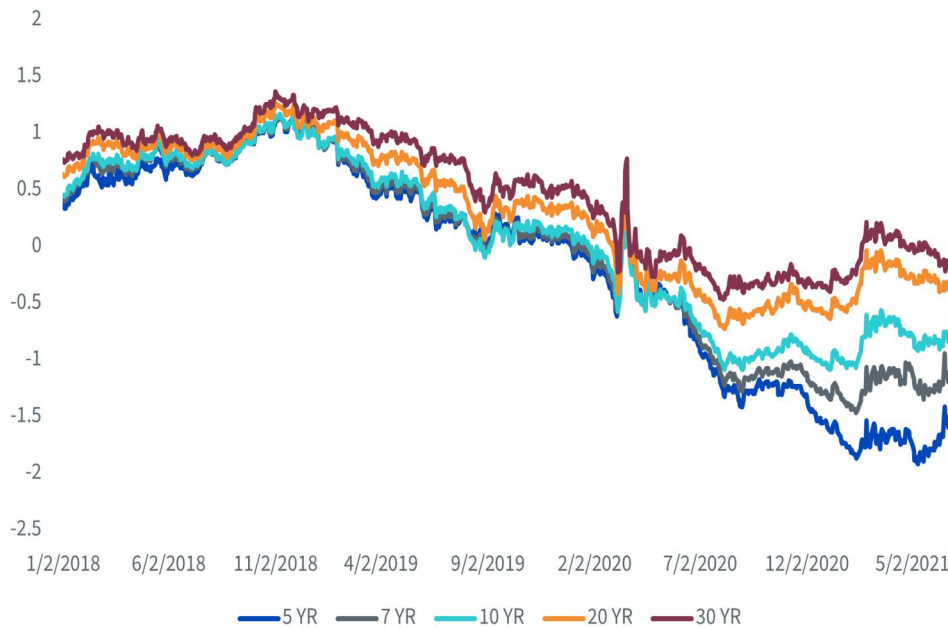
First, most investors have four common investment objectives with respect to their investment portfolios (though each person's "weighting" to an objective may differ):

1. Maintain or improve their current lifestyle
2. Do not outlive their money
3. Ensure that family legacy or impact/philanthropic goals can be met
4. Minimize fees and taxes along the way

These common objectives face two primary challenges as we look out over the investment horizon.

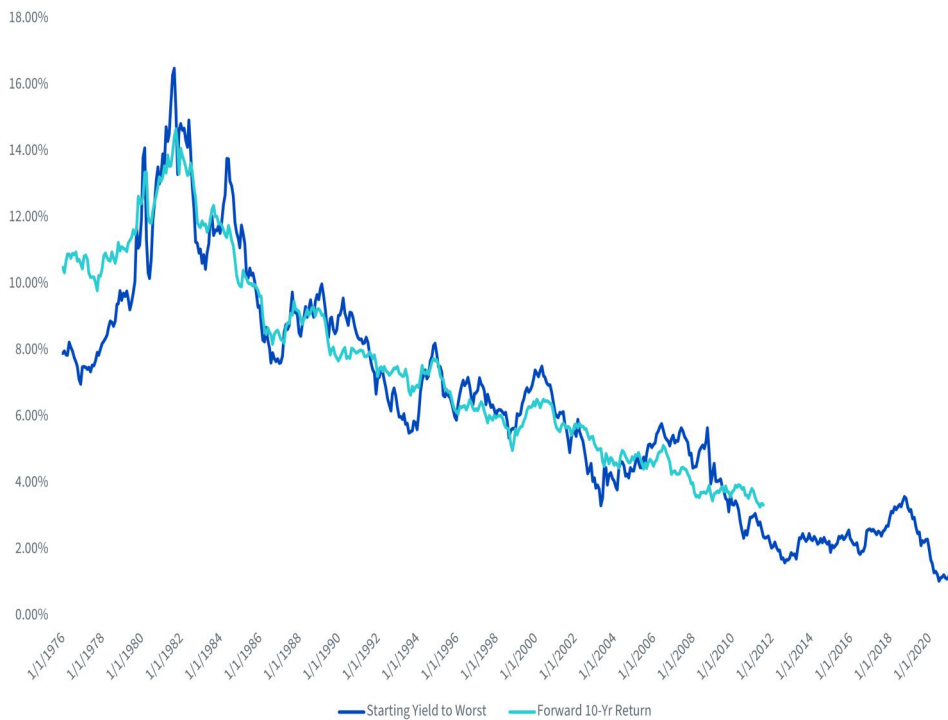
1. Low [interest rates](#): Interest rates remain very low, and we simply do not see many catalysts for driving them significantly higher into the foreseeable future. Accommodative [central bank](#) policies, an aging population and the corresponding demand for "hedge assets" to equity market risk are all working to keep rates low. Rates may grind higher from where they are today as the global economy recovers, but that is on a relative not absolute basis. Currently, [Treasury](#) levels of real interest rates are negative across the entire yield curve, suggesting investors are locking in the loss of purchasing power if they buy and hold those bonds until [maturity](#). Even including [corporate bonds](#), the starting yield has been an extremely accurate predictor of future bond returns, further compounding the issue facing investors down the road. **The implication is that it will remain difficult to generate sufficient current income or generate future returns out of a fixed income portfolio to maintain or improve current lifestyles without taking unwanted additional risk (i.e., increased [duration](#) or [credit risk](#)).**

Figure 1: U.S. Treasury Real Yields (%)



Source: Treasury.gov, data through 6/30/21. Past performance does not guarantee future results.

Figure 2: Bloomberg Barclays U.S. Aggregate Bond Index



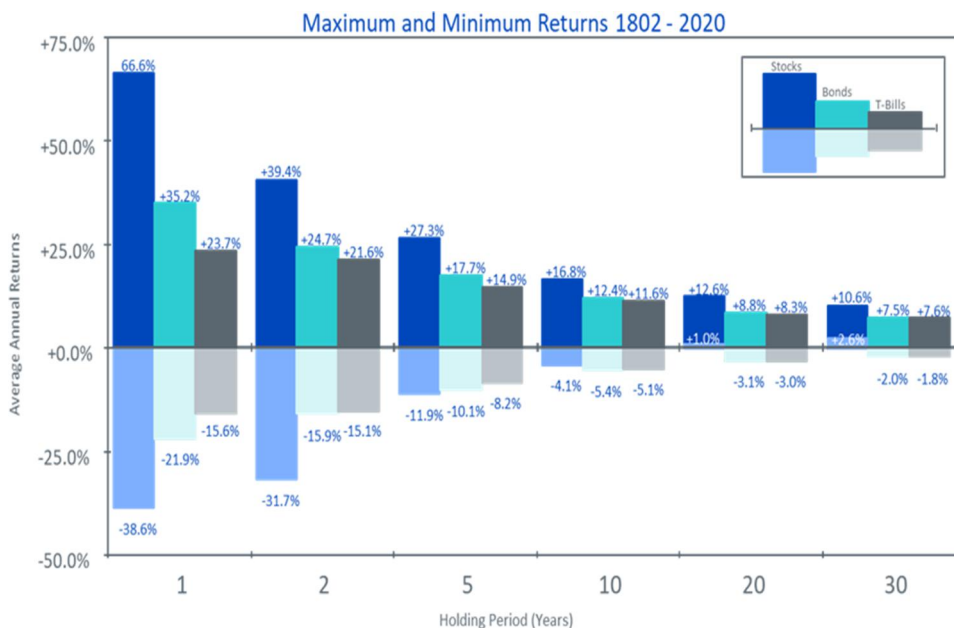
Sources: WisdomTree, Bloomberg, Zephyr StyleADVISOR, data from 12/31/1975–7/31/2021. Past performance does not guarantee future results. You cannot invest in an index.

2. Lower forecasted equity returns: The potential return on any investment is at least partly a function of what you pay for it today. Given today's equity market [valuations](#), investors may potentially face a lower return regime going forward. Our own estimates are for roughly 4.5%–5% real return versus a historical real return rate of 6.5%–6.7%. **The implication is that it may be more difficult to build Model Portfolios that have a sufficient longevity profile to accommodate increased life expectancies without taking on additional equity risk.**

So, the question becomes—how can we build a “better mousetrap” than the traditional “60/40” Model Portfolio that can potentially address most investors’ mandates in the face of current and expected future market environments?

Fortunately, there are things we can do. First, drawing on the research of Dr. Jeremy Siegel of the Wharton School, we know that, over a reasonable time horizon, even the worst-case scenario in stocks has been better than that of bonds or

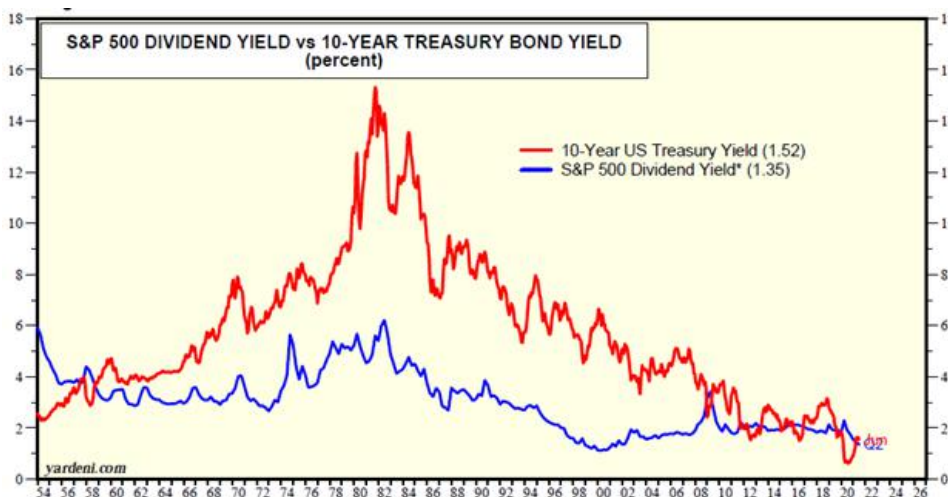
cash.



Source: Jeremy Siegel, *Stocks for the Long Run*, 2014, with updates to 2020. Copyright Jeremy J. Siegel. T-bill history extended by analysis of interest rates, default risk and term structures of comparable bonds with available information. Past performance is not indicative of future results

Our internal analysis, based on capital market assumptions of a real equity return of 4.5%–5% for equities and a real return of 0% for bonds, suggests that a 75% allocation to equities accomplishes two objectives versus a traditional “60/40” portfolio: (1) it potentially minimizes the probability of outliving your money over a 30-year time horizon, and (2) it also potentially increases the ability to fund legacy objectives.

On an additional note, current [dividend yields](#) from the equity markets remain comparable to the nominal 10-Year Treasury yield. We argue, however, that equity dividend yields are far more sustainable, with expected improvement as earnings and the economy recover. In addition, we believe equities hold the potential for upside total return, while bonds do not (if held to maturity).



* S&P 500 four-quarter trailing dividends per share divided by quarterly closing value of the S&P 500 index.
 Source: Standard & Poor's and Board of Governors of the Federal Reserve System.

Source: Yardeni Research, Inc., as of 7/30/21. You cannot invest in an index, and past performance does not guarantee future results. In this chart, the X-axis shows calendar years, and the Y-axis shows the 10-Year Treasury yield and the S&P 500 Index trailing 12-month dividend yield per share in percentage terms.

The Siegel-WisdomTree Model Portfolios

It was with these “facts on the ground” that, in collaboration with Dr. Jeremy Siegel of Wharton, a since-inception strategic advisor to WisdomTree, we constructed the Siegel-WisdomTree Model Portfolios—a **Global Equity** Model Portfolio and a “flagship” **Longevity** Model Portfolio. The Longevity Model Portfolio is explicitly our attempt to build a “better mousetrap” to the traditional 60/40 Model Portfolio:

1. A 75% (as the policy [weight](#)) allocation to yield-focused equities to improve current income generation, the longevity profile and the legacy potential of the overall portfolio (investor objectives 1, 2 and 3). The yield-focused nature of the selected equity securities means they tend to have a lower equity beta.
2. The fixed income allocation is constructed for quality income generation in a risk-controlled manner and to act as an appropriate equity risk hedge (investor objective 1).
3. Selectively implement alternatives such as [commodities](#) to help maintain purchasing power over time (investor objective 2).
4. The portfolio is constructed entirely with ETFs, to potentially optimize fees and taxes (investor objective 4).

We built the global all-equity Model Portfolio on the same principles, but in recognition that many advisors prefer to manage their own fixed income portfolios and/or want to create different risk profile portfolios than our suggested 75/25.

The potential results of our asset allocation, portfolio construction and security selection decisions are:

1. Improved current income generation
2. A better longevity profile (i.e., reduced short-fall risk)
3. Better potential for funding legacy objectives
4. An expected slightly higher [standard deviation](#) than a traditional 60/40 portfolio. That is, the investor and advisor are accepting slightly higher short-term [volatility](#) in exchange for increased current income and a better longevity profile.

We launched these models in late 2019, so they now have almost two years of live performance under fairly extreme market conditions (in both directions), and, so far, they have performed as expected both from a total return and a yield perspective. The current allocation to “alternatives” reflects the fact that we took positions in gold and broad-basket commodities at different times after we launched to mitigate the perceived risks of inflation as the economy recovers.

Figure 5: Model Performance

2.48%

Model 12-Month Dividend Yield

(As of 06/30/2021)

0.26%

Model Expense Ratio

11/30/2019

Inception date

70%

Equity

20%

Fixed Income

5%

Alternative

Model Performance

Model Allocations

Model Exposures

Fund Performance

Fund Details

As of 6/30/2021	Cumulative Returns			Average Annual Total Returns				
Name	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Siegel-WisdomTree Longevity Model (NAV)	-0.21%	4.89%	10.12%	27.65%	-	-	-	11.64%
Siegel-WisdomTree Longevity Model (MP)	-0.18%	4.67%	10.21%	27.63%	-	-	-	11.60%
75% MSCI ACWI Value - 25% Bloomberg Barclays U.S. Aggregate Bond Index	-0.79%	4.09%	10.07%	27.85%	-	-	-	9.55%
60% MSCI ACWI Value - 40% Bloomberg Barclays U.S. Aggregate Bond Index	-0.49%	3.64%	7.67%	21.81%	-	-	-	8.58%

The inception date of these Model Portfolios is 11/30/2019. You cannot invest directly in an index.

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when sold, may be worth more or less than their original cost.

The Model Portfolio performance results shown are theoretical and do not reflect any investor's actual experience with owning, trading or managing an actual investment. Thus, the performance shown does not reflect the impact that economic and market factors had or might have had on decision making if actual investor money had been managed and allocated per the Model Portfolio. Actual performance achieved in seeking to follow the Model Portfolio may differ from the theoretical performance shown for a number of reasons, including the timing of implementation of trades (including rebalancing trades to adjust to Model Portfolio changes), market conditions, fees and expenses (e.g., brokerage commissions, deduction of advisory or other fees or expenses charged by advisors or other third parties to investors, strategist fees and/or platform fees), contributions, withdrawals, account restrictions, tax consequences, and/or other factors, any or all of which may lower returns. While Model Portfolio performance may have performed better than the benchmark for some or all periods shown, the performance during any other period may not have, and there is no assurance that Model Portfolio performance will perform better than the benchmark in the future. Model Portfolio performance calculations assume reinvestment of dividends, are pre-tax and are net of fund expenses.

ETF shares are bought and sold at market price (not NAV) and are not individually redeemable from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

For standardized performance of underlying funds, please click [here](#).

For definitions of Indexes, please visit our [glossary](#).

Conclusion

We launched the Siegel-WisdomTree Model Portfolios in an attempt to address what we believe are some of the primary issues and conditions that investors face now and will face into the foreseeable future. Our view is, simply, that the traditional “60/40” portfolio will face significant headwinds in meeting investor objectives as we move through this decade and the next. We believe we have succeeded in constructing a better “mousetrap.”

Financial advisors can learn more about these models, and how to successfully position them with end clients, at our newly launched [Model Adoption Center](#).

Important Risks Related to this Article

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For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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You cannot invest directly in an index.

DEFINITIONS

Interest rates : The rate at which interest is paid by a borrower for the use of money.

Central bank : Refers to the the monetary authority of any country.

Treasury : Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

Maturity : The amount of time until a loan is repai.

Corporate Bonds : a debt security issued by a corporation.

Duration : A measure of a bond's sensitivity to changes in interest rates. The weighted average accounts for the various durations of the bonds purchased as well as the proportion of the total government bond portfolio that they make up.

Credit risk : The risk that a borrower will not meet their contractual obligations in conjunction with an investment.

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

60/40 Portfolio : A portfolio of 60% equities and 40% fixed income.

Dividend yields : Refers to the trailing 12-month dividend yield. Dividends over the prior 12 months are added together and divided by the current share price. Higher values indicate more dividends are being generated per unit of share price.

Equal weight : A type of proportional measuring method that gives the same importance to each stock in a portfolio, index, or index fund.

Commodity : A raw material or primary agricultural product that can be bought and sold.

Standard deviation : measure of how widely an investment or investment strategy's returns move relative to its average returns for an observed period. A higher value implies more "risk", in that there is more of a chance the actual return observed is farther away from the average return.

Volatility : A measure of the dispersion of actual returns around a particular average level.