

# Making great portfolios greater

Published 14 May 2025

## Pierre Debru

Head of Research, WisdomTree Europe.

## Luca Berlanda

Associate Director, Quantitative Research at WisdomTree in Europe

## Key Takeaways

- Replacing part of the equity allocations in the All-Weather and Permanent Portfolios with WisdomTree Efficient Core allows investors to replicate the original exposures while freeing up capital to include more diversifiers.
- Redeploying that freed-up capital into diversifiers or proportionally across existing assets can add returns, with minimal increase in volatility.
- Efficient Core serves two roles—as an equity replacement tool and a capital efficiency tool—allowing investors to tailor portfolios that align with specific risk and return objectives.
- Related Products WisdomTree US Efficient Core UCITS ETF - USD Acc, WisdomTree Global Efficient Core UCITS ETF - USD Acc Find out more

Whether saving for retirement or a future home, investors typically seek strong returns without incurring excessive risk. To do that, the 60/40 portfolio has been a staple choice, but other robust portfolio proposals have also emerged over time. Ray Dalio's All-Weather Portfolio and Harry Browne's Permanent Portfolio stand out as particularly popular and effective examples, known for their resilience and adaptability.

WisdomTree has developed a unique range of Efficient Core exchange-traded funds (ETFs) that offers a unique investment tool. By allocating 90% to stocks for growth and 60% to bond futures for balance (in other words, a 60/40 leveraged by 150%), this tool allows investors to improve on a traditional portfolio that mixes equities and bonds by freeing up space in portfolios. The capital efficiency unlocks the ability to add diversifiers, without sacrificing core equity exposure (read more [here](#) ).

So, can WisdomTree Efficient Core also improve those other popular portfolios?

## Using WisdomTree Efficient Core to improve all-weather portfolio

**Dalio's All-Weather Portfolio** resembles a risk-parity portfolio and is designed to perform consistently across various economic scenarios, including inflation, deflation, accelerating growth, and slowing growth. Equities typically perform well during periods of economic growth, while long-term bonds offer protection during deflation and recessionary environments. Intermediate-term bonds provide stability during moder-

ate economic fluctuations, commodities generally thrive in inflationary environments, and cash serves as a buffer during market volatility.

We first try to replicate the all-weather portfolio by using WisdomTree US Efficient Core (see the second column of Figure 1). We start by substituting the equity position in the all-weather portfolio with WisdomTree US Efficient Core. With this, investors effectively achieve a 27% equity exposure ( $30\% * 90\%$ ). To maintain the original 30% allocation to equities, an additional 3% is allocated directly to the S&P 500. Since WisdomTree US Efficient Core also includes 15% exposure to intermediate-term Treasuries, investors can reduce this amount from their existing bond allocation. This adjustment frees up approximately 12% of capital, which can be allocated to T-bills.

## Figure 1: Variations of the All-Weather Portfolio using US Efficient Core

*Source: WisdomTree. The table shows different variations of the All-Weather Portfolio by introducing US Efficient Core.*

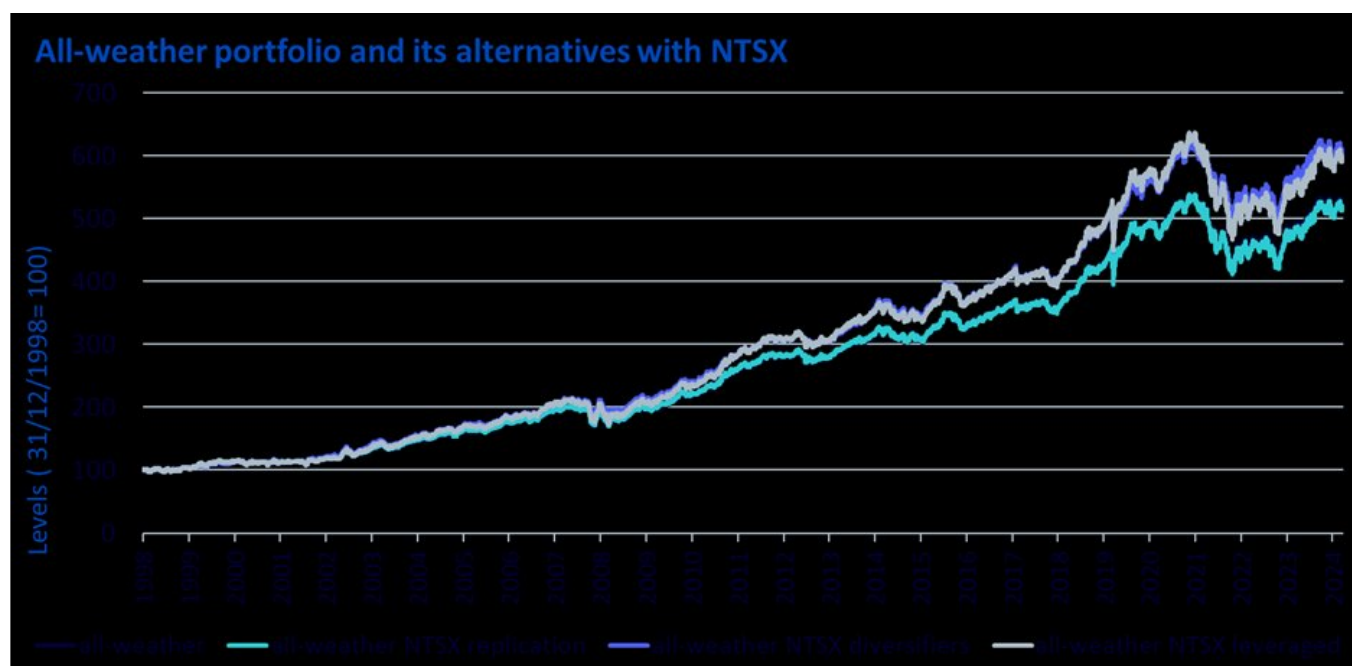
The dark blue line and the teal line in Figure 2 indicate that this Efficient Core-enhanced version of the All-Weather Portfolio closely mirrors the original portfolio's performance. Minor discrepancies primarily arise from small differences in the fixed income leg durations but, overall, the replication remains precise for all practical purposes.

However, one major effect of integrating US Efficient Core in the portfolio is that this opens further opportunities for investors. The approximately 12% freed-up capital can be strategically deployed in two main ways.

- **NTSX Diversifiers** - first, investors might enhance diversification by incorporating additional asset classes or alternative strategies that typically have low correlations with traditional asset classes. In this case, we substitute the cash with a common trend-following index, namely the SG Managed Futures index.
- **NTSX Leveraged** - alternatively, investors might consider proportionally redistributing the freed capital across the existing asset classes.

The effects are the ones that we see in the purple and grey lines in Figure 2.

## Figure 2: Historical performance and statistics of the All-Weather Portfolio using US Efficient Core



Source: WisdomTree, Bloomberg. Data from 1 January 1999 to 25 March 2025. **You cannot invest in an index. Historical performance is not an indication of future performance, and any investments may go down in value.**

We can see that:

- Both the options have a very similar performance: both add a 0.6% per annum (p.a.) return to the All-Weather Portfolio.
- In the first option (all-weather NTSX diversifiers), volatility only goes up slightly (by 0.3% compared to the “replicating” portfolio) and max drawdown improves. On the other hand, the second option’s (all-weather NTSX leveraged) return increase costs more in terms of volatility and maximum draw-down.
- The Sharpe ratio increases significantly in option 1 and stays stable in the case of option 2.

### Using WisdomTree Efficient Core to improve Browne’s Permanent Portfolio

**Browne’s Permanent Portfolio** relies on equal allocations to stocks, long-term government bonds, gold, and cash, diversifying effectively across assets that react differently throughout economic cycles. Like the All-Weather Portfolio, it aims to perform well across different environments but stands out for its simplicity and objectively impressive risk-return profile.

Like before, we first replicate the permanent portfolio by integrating WisdomTree US Efficient Core and we subsequently redeploy the freed-up cash by:

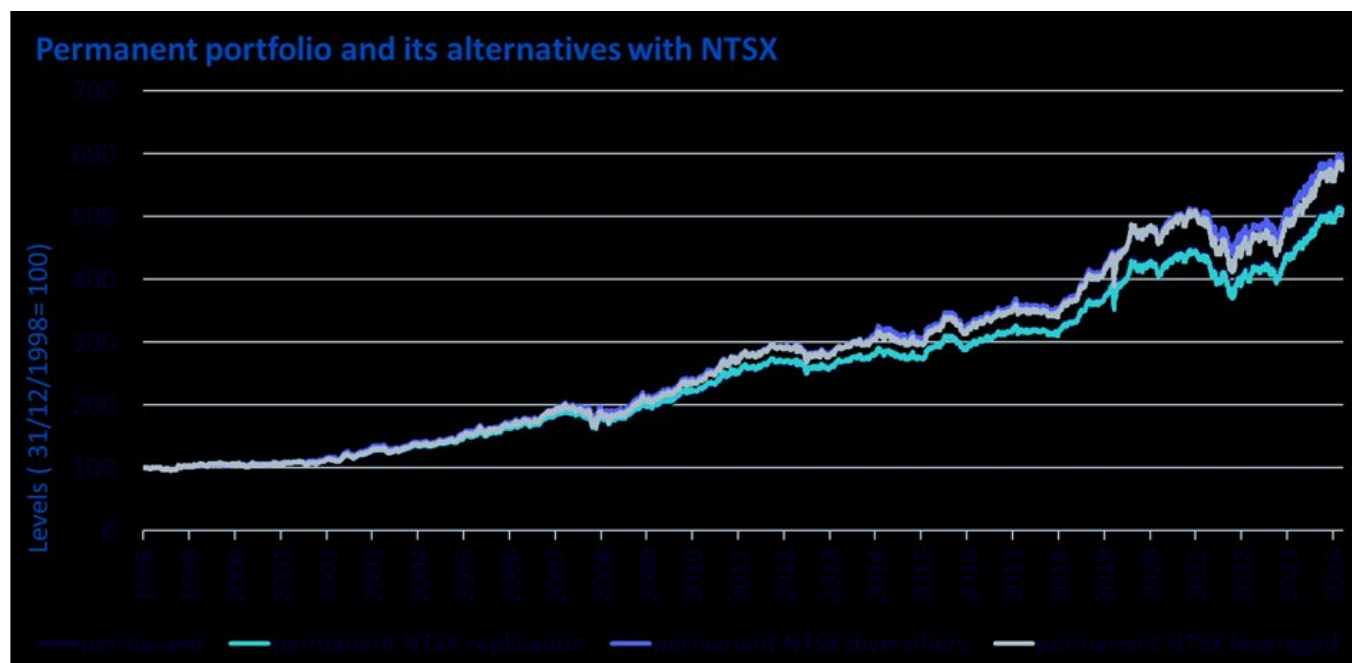
- Adding a diversifier
- Adding, proportionally, the existing asset classes

### Figure 3: Variations of the Permanent Portfolio using US Efficient Core

Source: WisdomTree. The table shows different variations of the Permanent Portfolio by introducing NTSX.

As in the previous example, we can see that adding a valid diversifier improves the portfolio in terms of performance and in terms of risk adjusted profile, while spreading the cash proportionally to the existing asset classes only adds in terms of performance but keeps the risk-return profile unaltered.

### Figure 4: Historical performance and statistics of the Permanent Portfolio using US Efficient Core



Source: WisdomTree, Bloomberg. Data from 1 January 1999 to 25 March 2025. You cannot invest in an index. Historical performance is not an indication of future performance, and any investments may go down in value.

## Conclusion

Efficient Core serves two critical purposes in portfolio design:

- **Equity replacement:** by offering equity-like returns with improved efficiency, it becomes a powerful substitute for traditional equity allocations—particularly for investors seeking enhanced risk-adjusted returns.
- **Capital efficiency:** it frees up portfolio real estate for diversifiers without compromising exposure to core growth assets. This is especially valuable in a world where macroeconomic volatility and inflation uncertainty heighten the need for robust risk management.

Efficient Core redefines what it means to be 'core' in a portfolio. It acknowledges the limitations of traditional allocations and offers a practical, data-driven pathway to better outcomes. As markets evolve and capital becomes scarcer, capital efficiency may well become the new frontier of portfolio construction.

## Important Risks Related to this Article

### IMPORTANT INFORMATION

**Marketing communications issued in the European Economic Area (“EEA”):** This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland. **Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority. WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request. This marketing communication has been prepared for professional investors, but the WisdomTree products set out in this document may be available in some jurisdictions to any investors, subject to applicable laws and regulations. As the product may not be authorised or its offering may be restricted in your jurisdiction, it is the responsibility of every person or entity to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdiction. Prior to any application investors are advised to take all necessary legal, regulatory, tax and investment advice on the suitability and consequences of an investment in the products. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment. An investment in exchange-traded products (“ETPs”) is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks. The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes. This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or

guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents. This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements. WisdomTree Issuer ICAV The products discussed in this document are issued by WisdomTree Issuer ICAV ("WT Issuer"). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland ("CBI"). WT Issuer is organised as an Undertaking for Collective Investment in Transferable Securities ("UCITS") under the laws of Ireland and shall issue a separate class of shares ("Shares") representing each fund.

The Fund is described in a Key Information Document (KID) or Key Investor Information Document (KIID) for UK investors, and the prospectus of WT Issuer ("WT Prospectus"). A copy of the WT Prospectus and the KID / KIID is available, for EEA/UK only, in English at [www.wisdomtree.eu](http://www.wisdomtree.eu). Where required under national rules, the KID will also be available in the local language of the relevant EEA Member State. Investors should read the WT Prospectus before investing and should refer to the section of the WT Prospectus entitled »Risk Factors¼ for further details of risks associated with an investment in the Shares. The [summary of investor rights](#) associated with an investment in the fund is available in English on WisdomTree Europe¼s website. WisdomTree Management Limited may decide to terminate the arrangements made for the marketing of its collective investment undertakings. In such circumstances, shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to redeem their shareholding in the fund free of any charges or deductions for at least 30 working days from the date of such notification. Notice to Investors in Switzerland – Qualified Investors This document constitutes an advertisement of the financial product(s) mentioned herein. The prospectus and the key investor information documents (KIID) are available from WisdomTree¼s website at <https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports> Some of the sub-funds referred to in this document may not have been registered with the Swiss Financial Market Supervisory Authority ("FINMA"). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent. For Investors in France:

The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto. **For Investors in Malta:** This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority. **For Investors in Monaco:** This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.