

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.

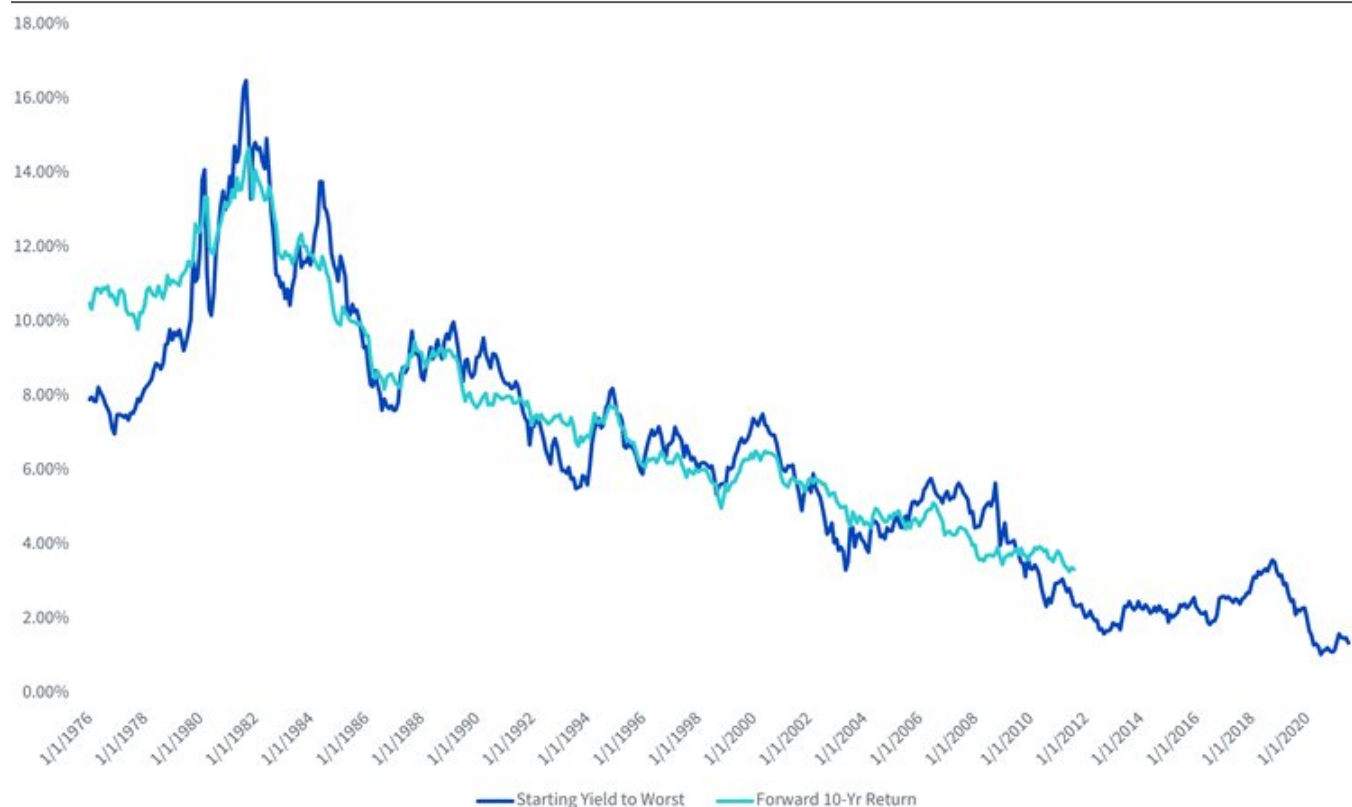
1. Low interest rates: Interest rates remain very low, and we simply do not see many catalysts for driving them significantly higher into the foreseeable future. Accommodative central bank policies, an aging population and the corresponding demand for “hedge assets” to equity market risk are all working 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

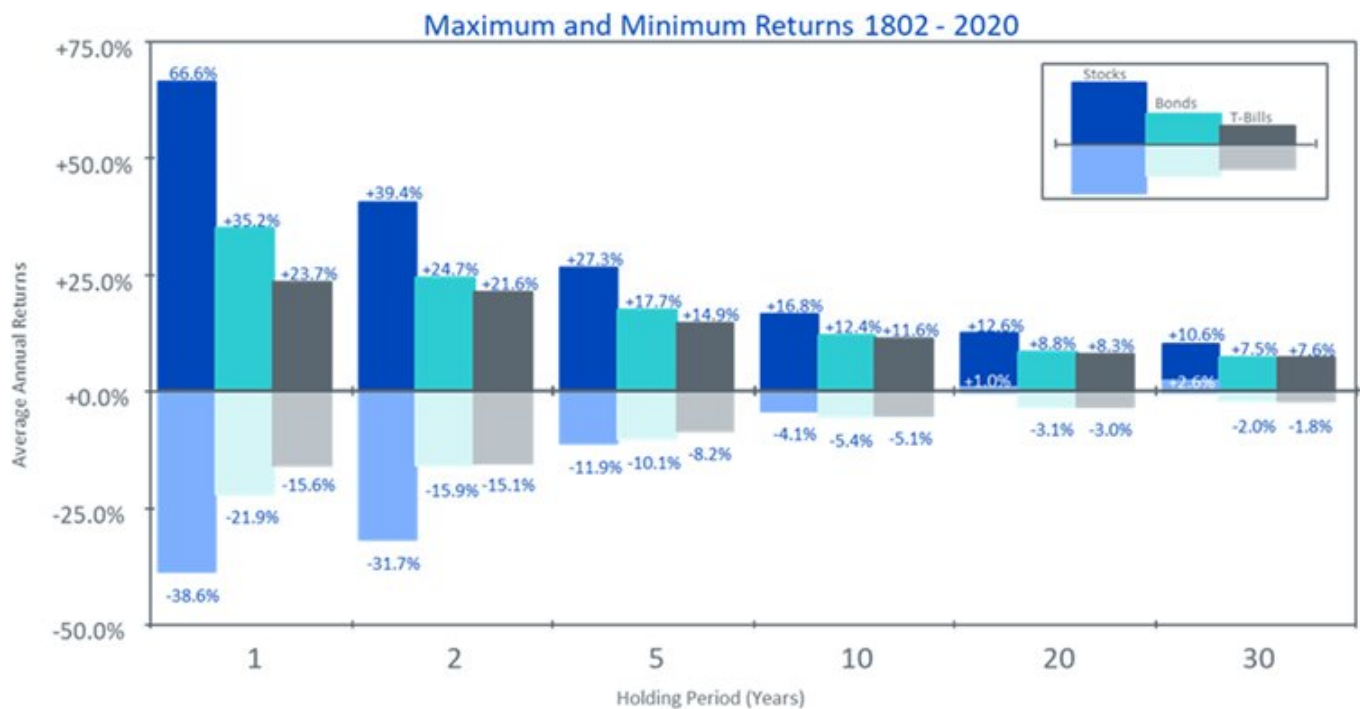


Sources: WisdomTree, Bloomberg, Zephyr StyleADVISOR, data from 12/31/1975–7/31/2021. Past performance does not guarantee future results. You cannot invest in an index.

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?

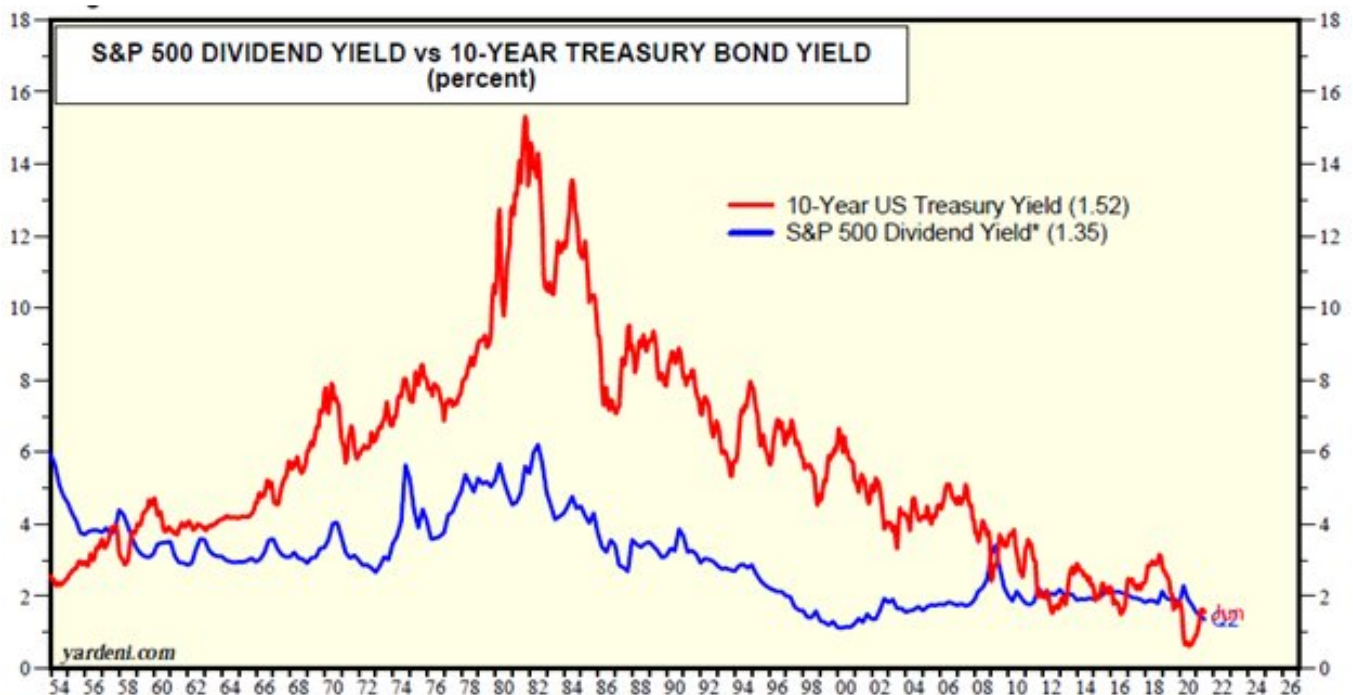
Fortunately, there are things we can do. First, drawing on the research of Dr. Jeremy Siegel of the Wharton School, we know that, over a reasonable time horizon, even the worst-case scenario in stocks has been better than that of bonds or cash.



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).

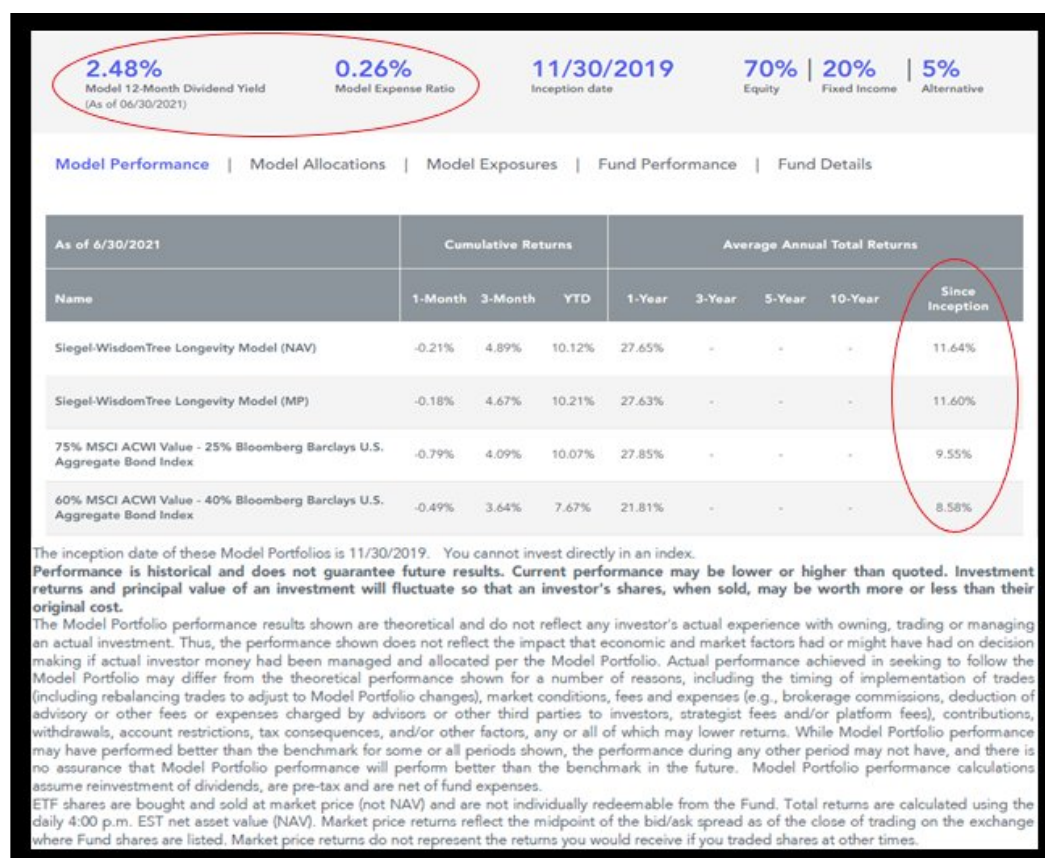
We built the global all-equity Model Portfolio on the same principles, but in recognition that many advisors prefer to manage their own fixed income portfolios and/or want to create different risk profile portfolios than our suggested 75/25.

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



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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