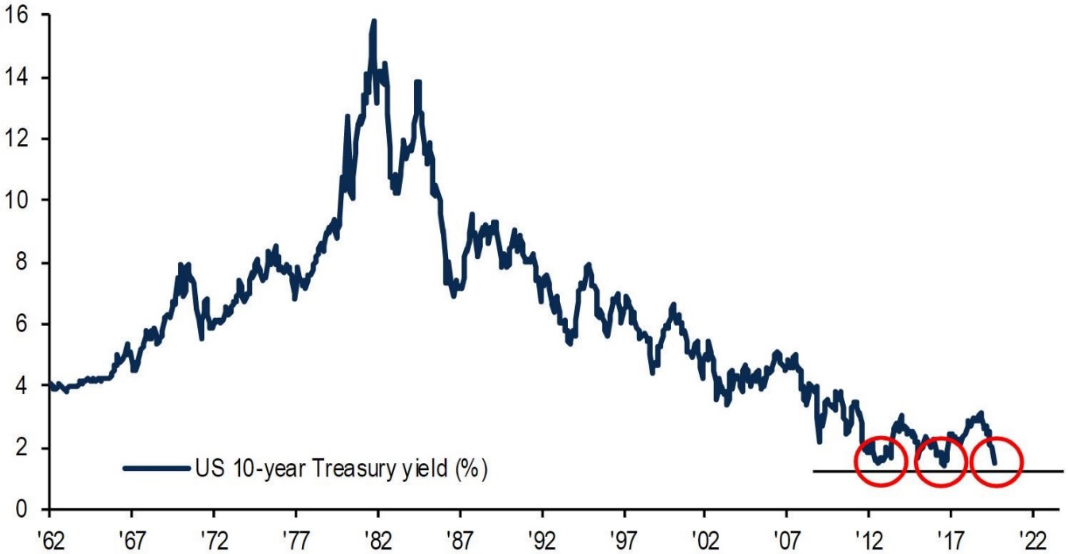
SWM INVESTMENT REPORT OCTOBER 2019

The End of the 60% Stock - 40% Bond Portfolio

Since the late 1960's, there have been various books, research reports, and white papers published by academia that the ideal portfolio should carry 60% of its holdings in equities and 40% in bonds, a mix that provides greater exposure to solid and consistent risk-adjusted stock returns, while also granting the diversification benefits and lower risk of fixed-income. Since 2012, more and more institutions are changing their tune as the 10-year bond yield has been bouncing around all-time lows making it difficult to receive interest anywhere close to historical norms of 5% in government bonds, or any bonds for that matter.



In a research note published by Bank of America Securities titled "The End of 60/40," portfolio strategists, Derek Harris and Jared Woodard, argue that "there are good reasons to reconsider the role of bonds in your portfolio," and to allocate a greater share toward equities. The core argument is there are now 1,100 global stocks that are providing dividends above the average yield of global government bonds. In my opinion, this makes perfect sense because an allocation toward more equities obviously increases returns but also increases the level of volatility and drawdown.

Given the current environment, we have been out-of-the-box thinkers for quite some time. For a moderate allocation in this environment, we think 60% equities, 25% tangible real estate investments, and 15% fixed income will produce much better results with similar levels of volatility. Blackstone, because of its specialization in real estate, was the first to begin calling for a better investment plan that can actually take advantage of the low interest rate environment. They have hundreds of white papers and presentation slides to show the importance of implementing tangible real estate in your portfolio. We know that every client needs to have a safe bucket, a stock bucket, and a real estate bucket. We have been very realistic with client education that the only way to move your net worth needle much higher over the next decade will be to focus on higher allocations in the real estate and stock buckets.

In the real estate world, there are various ways to generate passive income and possible growth without volatility. In our 9 Box Return model, there are some options in Box 1 and Box 4. In essence, a decent return possibility without the market volatility is a game changer. We have opened up many client accounts at a custodian called at IRA Services ([www.iraservices.com)](http://www.iraservices.com) which specializes in holding private real estate funds. We have several options to consider in the 4th quarter. So, for a more detailed analysis of future real estate opportunities, you can email Ben to set up a conference call. We have slides, presentations, and webinars that can help educate.

9 BOX RETURN MODEL

Return	NONE	MODERATE	HIGH
10%+	**1** high returns NO volatility	**2** high returns moderate volatility	**3** high returns high volatility
5-10%	**4** good returns NO volatility	**5** good returns moderate volatility	**6** good returns high volatility
0-5%	**7** low returns NO volatility	**8** low returns moderate volatility	**9** possible losses low returns high volatility

Volatility

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