THE MARKETS CONTINUE TO RETHINK THE 60/40 PORTFOLIO

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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.

Cart Master: Bring out yer dead!
Customer: Here's one…
Dead Person: I'm not dead!
Cart Master: 'Ere. He says he's not dead!
Customer: Yes, he is.
Dead Person: I'm not!
Cart Master: He isn't?
Customer: Well, he will be soon. He's very ill.
Dead Person: I'm getting better!
Customer: No, you're not. You'll be stone dead in a moment.

(From the film, "Monty Python and the Holy Grail," released 1975)

We try to avoid hyperbole in our market commentary, so you will not find any references here to the death of the 60/40 portfolio (60% equities and 40% bonds). It is a tried-and-true moderate risk portfolio that has performed well for millions of investors over the years.

That said, it is not inappropriate to challenge conventional wisdom, as both we and others have done (e.g., Goldman Sachs, Deutsche Bank, Bank of America)[1]. We also were one of the first asset management shops to build Model Portfolios explicitly challenging the wisdom of a traditional 60/40 approach, specifically the Siegel-WisdomTree Models, which we launched in November 2019.

Let's remind ourselves of the investment mandates we were solving for when we built and launched these Models.

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 (i.e., optimize current income)**
2. **Not outlive their money (i.e., make sure the portfolio lasts at least as long as they do)**
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 consider the investment horizon.

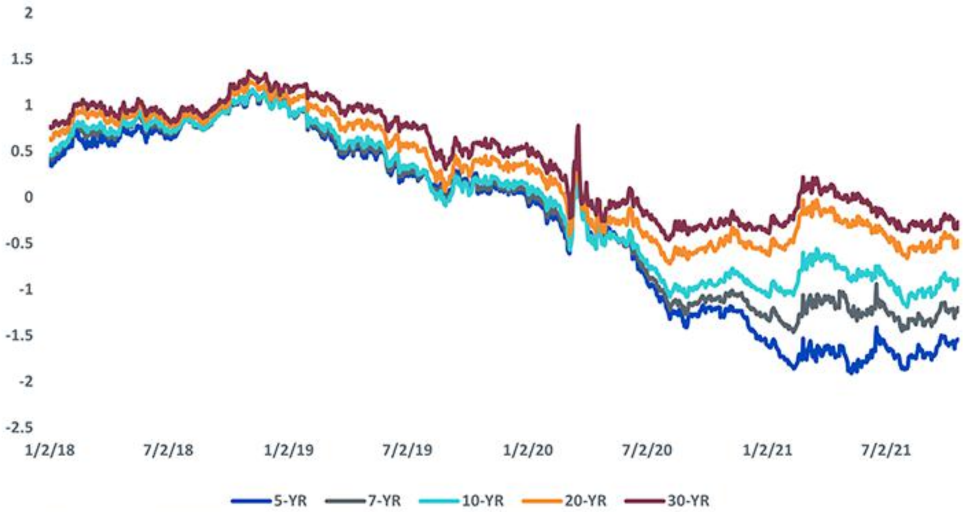
- **Low interest rates**: Interest rates remain very low, and though we do see them grinding higher from current levels as the economy improves—perhaps hitting 1.75%–2.00% by year-end—we simply do not see many catalysts driving them significantly higher in the foreseeable future. Massive federal debts and deficits, an aging population and the corresponding demand for assets to hedge equity market risk are all working to keep rates low by historical standards.

  Currently, Treasury real levels of interest rates (the nominal rate minus the inflation rate) remain negative across the entire yield curve. In addition, corporate credit spreads remain historically tight. Assuming a buy and hold strategy, the "starting yields" on a bond historically have a been a good predictor of the expected return on that bond.

  Today that yield (using the current 10-Year nominal Treasury rate of approximately 1.59% and an average corporate credit spread of approximately 0.89%) is roughly 2.48%.

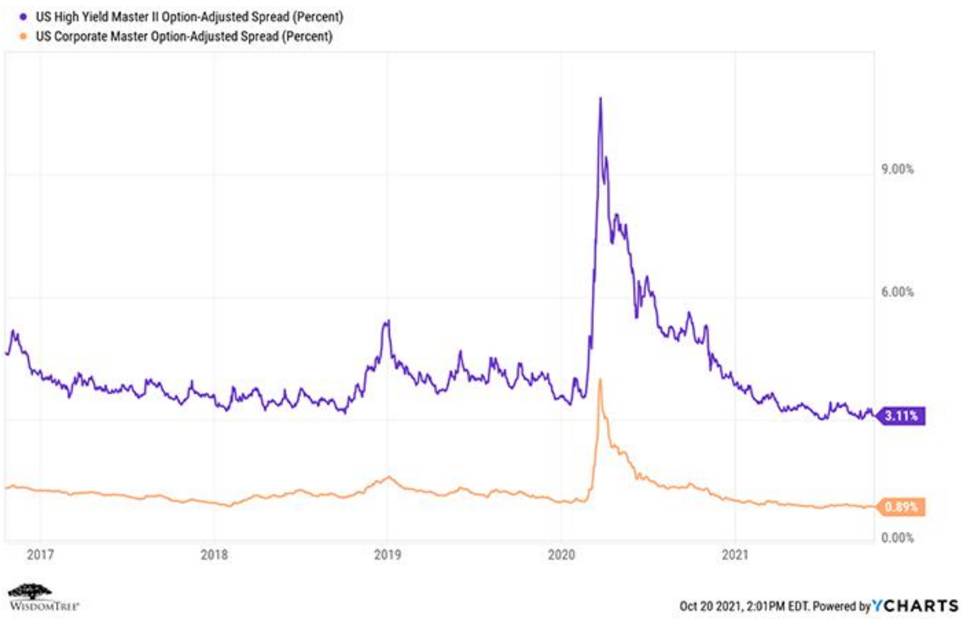
  The implication is that it will remain difficult to generate sufficient current income or future returns with fixed income portfolio to maintain or improve current lifestyles, without taking unwanted additional risk (i.e., increased duration or credit risk).

U.S. Treasury Real Yields (%)



Source: Treasury.gov, data through 10/19/211. Past performance does not guarantee future results.

Source: YCharts, 12-month data through 10/19/21. Past performance does not guarantee future results.

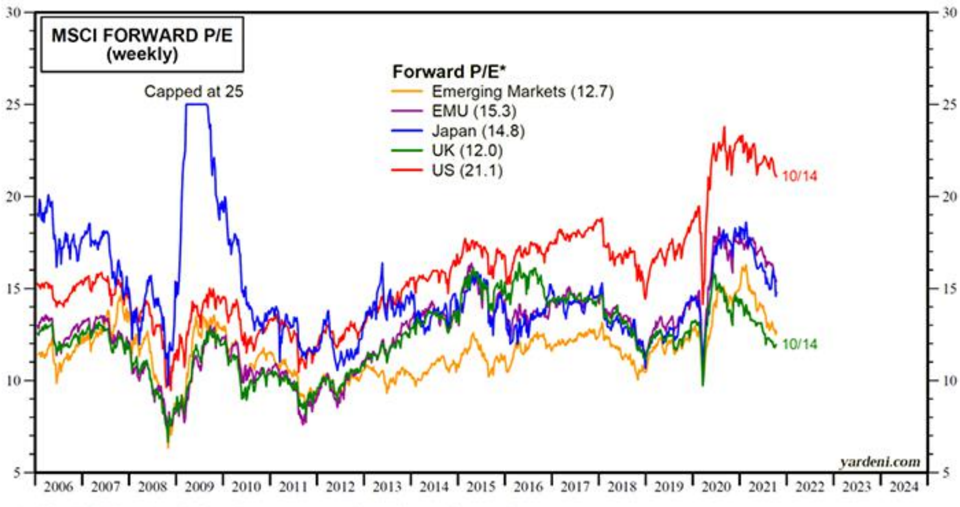


Source: YCharts, 5-year data through 10/19/21. You cannot invest in an index and past performance does not guarantee future results.

For definitions of terms in the chart please visit the glossary.

- **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%–5.0% real return, versus an historical real return rate of 6.5%–6.7%.

  The implication is that it may be more difficult to build portfolios that have a sufficient longevity profile to accommodate increased life expectancies without taking on additional equity risk.



* Price divided by 12-month forward consensus expected operating earnings per share.
Source: I/B/E/S data by Refinitiv.

Source: Yardeni Research, data as of 10/19/21. You cannot invest in an index and past performance does not guarantee future results.

So, the question becomes—can we build a better mousetrap than the traditional 60/40 portfolio, which can potentially address most investors' mandates in the face of current and expected future market environments? Let's start with dividends.

Given the run-up in equities and rise in rates, current dividend yields are once again lower than bond yields. We argue, however, that equity dividend yields are far more sustainable, with expected improvement as earnings and the economy recover. In addition, equities hold the potential for upside total return, while bonds do not (if held to maturity).

Source: YCharts, 12-month data through 10/19/21. You cannot invest in an index and past performance does not guarantee future results.

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 launched, in November 2019, the Siegel-WisdomTree Model Portfolios—a **Global Equity Model** and the flagship **Longevity Model**.

The Longevity Model explicitly is our attempt to build a better mousetrap than the traditional 60/40 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 mean they tend to have a lower equity beta profile.

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 Objectives #1 and 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 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 Model (keeping in mind, however, that the further you deviate from 75/25, the further you drift from our underlying investment thesis).

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. **A low cost and tax efficient portfolio.**

5. **An expected standard deviation slightly higher 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.

Siegel-WisdomTree Longevity Model

Close ^

2.63% Model 12-Month Dividend Yield (As of 09/30/2021) | 0.26% Model Expense Ratio | 11/30/2019 Inception date | 72% Equity | 22% Fixed Income | 6% Alternative

Model Performance | Model Allocations | Model Exposures | Fund Performance | Fund Details

As of 9/30/2021	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)	-2.98%	-1.01%	9.01%	21.50%	-	-	-	9.36%
Siegel-WisdomTree Longevity Model (MP)	-2.98%	-1.09%	9.01%	21.29%	-	-	-	9.27%
75% MSCI ACWI Value - 25% Bloomberg U.S. Aggregate Bond Index	-2.48%	-1.02%	8.95%	22.68%	-	-	-	7.58%
60% MSCI ACWI Value - 40% Bloomberg U.S. Aggregate Bond Index	-2.16%	-0.80%	6.81%	17.70%	-	-	-	6.89%

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.

Conclusion

As an early adopter of the notion of challenging the traditional 60/40 portfolio, 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 will face in 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.

[1] See, for example.

Important Risks Related to this Article

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DEFINITIONS

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

Yield curve : Graphical Depiction of interest rates on government bonds, with the current yield on the vertical axis and the years to maturity on the horizontal axis.

Credit spread : The portion of a bond's yield that compensates investors for taking credit risk.

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.

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.

Dividend : A portion of corporate profits paid out to shareholders.

Dividend yield : A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

Quality : Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over tim.