Are Conventional "Conservative" Portfolios Risky for Retirees?

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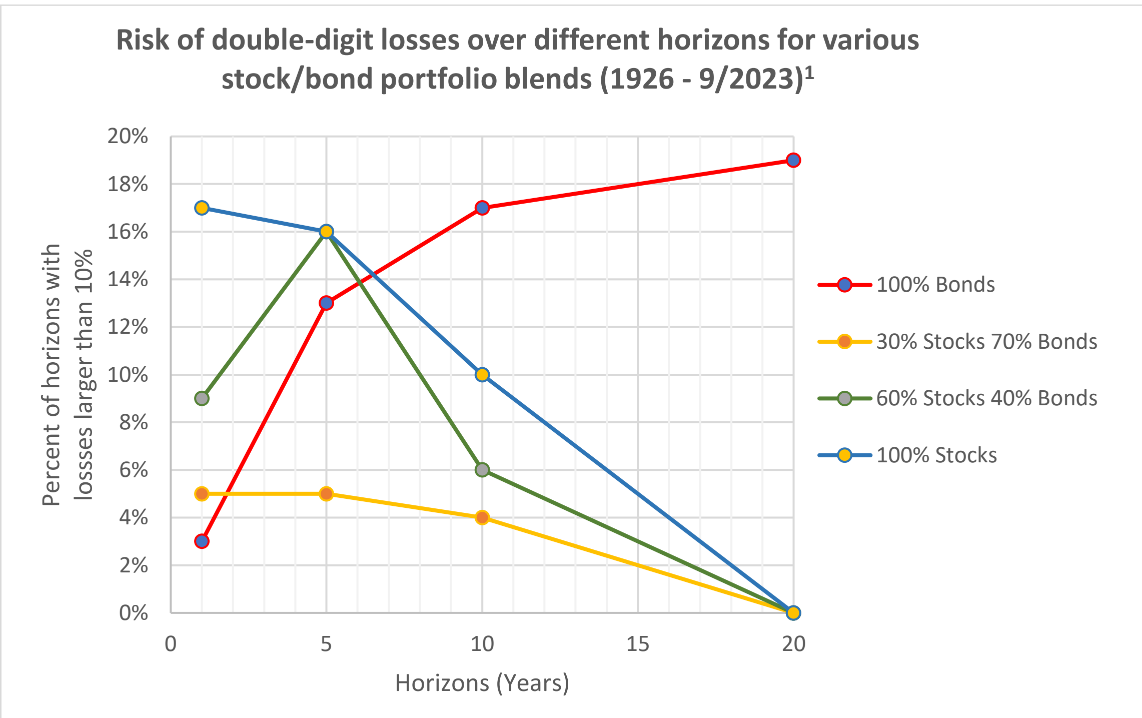
If you're retiring in your sixties, you've likely downshifted to a more bond-heavy, less stock-heavy portfolio. But does this traditional approach truly minimize risk and ensure financial security? A closer look at historical data reveals some surprising trends:

Following conventional planning guidance, over time, you have shifted your allocation from a 75/25 stock/bond portfolio in your 40s, to a 60/40 portfolio in your 50s, and now you're considering a 40/60 allocation and even contemplating an all-bond portfolio down the road.

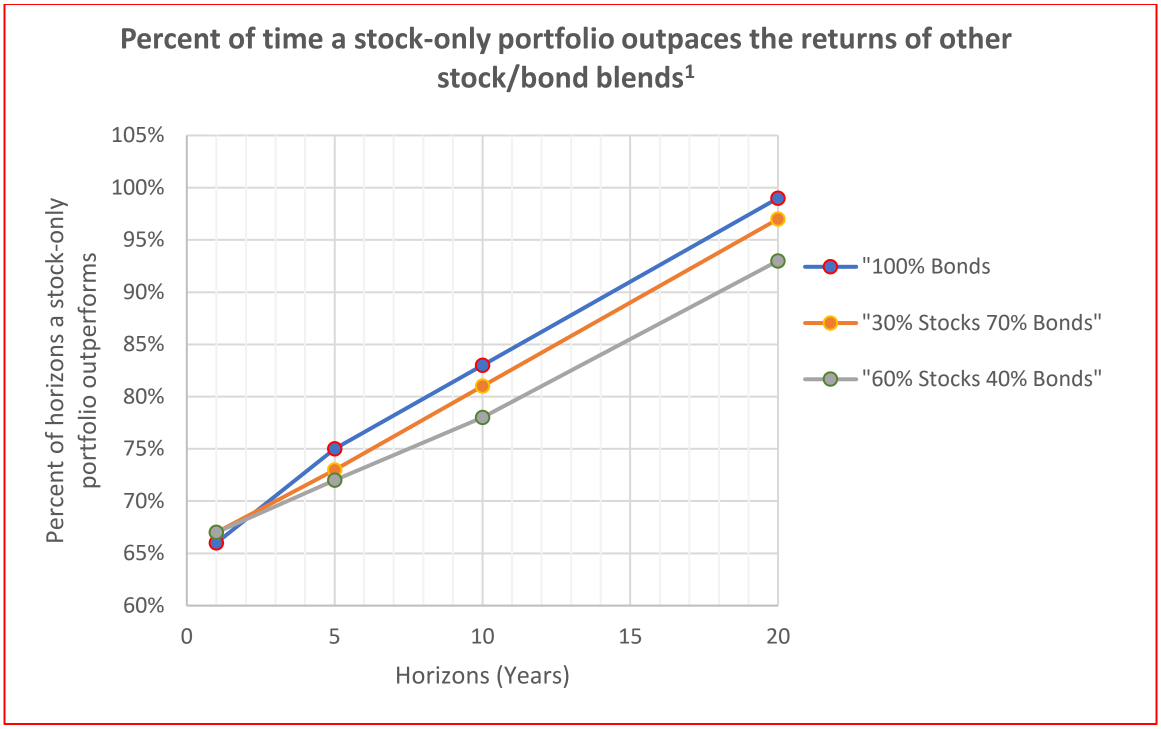
But the historical data does not bless this approach.



In terms of risk, an all-bond portfolio, often seen as the safest option, becomes more susceptible to large losses over a 20-year horizon, with a peak in the 20th year.

In contrast, stock/bond blends may face more significant losses initially but become less risky later on, converging towards zero risk for sustaining double-digit losses close to the 20th year.

And in terms of returns, all-stock portfolios have historically outperformed stock/bond blends over 20-year horizons.



This evidence challenges traditional allocation practices and directly contradict the age-based glide-path mechanism that governs Target-Date funds.

Many approaches disregard this evidence. Few make it their governing principle. We disagree with both.

At GNH Capital Group of Wells Fargo Advisors, we work to contextualize surprising or even conflicting pieces of evidence and integrate them within the logic that drives our strategies. We believe that for retirees to meet their goals and reduce the probability of shortfall, their portfolio allocation needs to be continuously kept market-adaptive, risk-controlled, and tax-aware regardless of age or horizon. Our research shows this stance enables the sustainable navigation of unfolding market-regime shifts and economic dislocations.

[1] Source: Morningstar; YCharts; author calculations. Stocks proxied by the S&P 500 and Bonds by the 10-yr. intermediate-term US gov't Treasuries; inspired by John Rekenthaler's post https://www.morningstar.com/stocks/how-time-horizon-affects-odds-equity-investing

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