

YOUR PORTFOLIO NEEDS AN EXORCISM

Kostas Grigorakis, CFA®, Managing Director – Investments, Senior PIM® Portfolio Manager

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You've heard the phrase when things go awry: *the Devil made me do it*. It's dismissed as a poor excuse and rejected as a justification—after all, who can verify that “demons” were involved?

But when things go awry with portfolios, we can identify the demons at work—popular, persistent misconceptions that systematically undermine wealth cultivation.

They need to be exorcised before they define the outcome—not rebalanced, not tweaked.

Here are two of the primary demons—there are many others:

First is the “allocation demon.”

For decades, asset allocation's rule of thumb has been to increase bond exposure with age—40% at 40, 60% at 60, and 80% at 80. Yet over the last five years, these portfolios have failed to keep pace with inflation and lagged well behind Lifestation [1], the cost of maintaining and modernizing an investor's standard of living. S&P Risk Target Conservative returned +3.52% annualized [2], Moderate +4.63%, and Balanced +6.65%, versus CPI at roughly +4.5%, with bursts to 9%, and Lifestation near 7%. Worse, expanded bond allocations often mean greater exposure to high yield and foreign fixed income—two asset classes that typically rival the risk of stocks, especially during rate shocks, currency dislocations, and credit crises. This rule of thumb has betrayed investors for decades and must be exorcised.

Next is the “econ demon”—the belief that economics and economic forecasting offer a deterministic framework for building portfolios and navigating markets.

We have written before about the status of economics, which can be summarized by Ken Galbraith's humorous remark that “the only function of economic forecasting is to make astrology look respectable,” or Warren Buffett's observation that “any company that employs an economist has one employee too many.”

Economics is not a mature science. Absent an integrated foundational theory, it remains closer to pre-Newtonian physics—while its distance from finance and investing is measured in light years. Investors should remain mindful of this and approach it with skepticism. Not only do economists—and their forecasts—disagree about the state of the economy, but even when consensus eventually settles (typically in distant retrospect, as with official recession calls), the implications for markets and portfolios remain tenuous. Since 1980, the market has risen during every declared recession but one (2007–2008).

Moreover, as we have previously shown, there is substantial reason to question the ability of economic forecasting to reliably track—even react to—basic variables such as inflation [3].

Interested in exorcising your portfolio's demons? Talk to us.

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[1] <https://fa.wellsfargoadvisors.com/gnh-capital-group/mediahandler/media/645387/GNH%20Capital%20Group%20-%20Lifeflation.pdf>

[2] S&P Global

[3] <https://fa.wellsfargoadvisors.com/gnh-capital-group/mediahandler/media/710749/GNH%20Capital%20Group%20-%20Downgrading%20the...Fed.pdf>

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