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Markets in a Minute: Goldilocks and the "Just Right" Portfolio

Previously, we discussed how individuals can successfully build wealth over time by being like the Tortoise and embracing time and consistency. Then last time, three charming little pigs helped us explore the perils of the fast-to-build and quick-to-come-down portfolio, as well as the too-conservatively built portfolio that shrinks over time. So, what's an investor to do? This week, we look to Goldilocks to help us uncover how to build the "just right" portfolio.

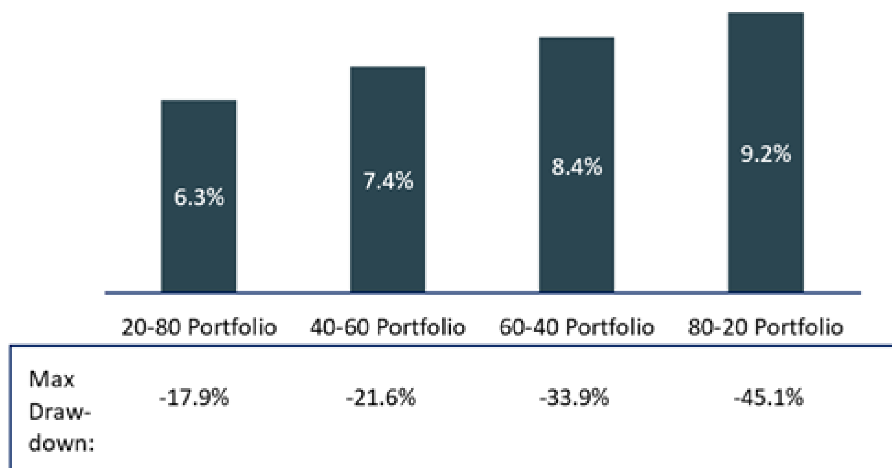
We have all heard how little Goldilocks, lost in the woods as many a fairytale character does, stumbles upon a cozy cabin. Hungry, she finds three bowls of porridge on the table and without much hesitation, she begins to taste each one. She quickly discovers that the three bowls may be filled with the same ingredients, but they don't all suit her, much as investors need to identify the right mix of assets that is just right for him or her.

Most individuals have some mixture of stocks and bonds in their portfolio, but the temperature can vary widely depending on the relative size. Stocks, with their hot return potential over time, act as the engine of growth. Though as Goldilocks soon discovered, a "too-hot" portfolio can also be anxiety inducing and not appropriate for shorter-term cash needs. In fact, looking back to 1990, a portfolio that held 80% in stocks and just 20% in bonds fell at one point close to 50%.

Enter bonds. Bonds tend to fall much less than stocks (2022 being an exception), cushioning a portfolio in down markets and providing an investor with consistent income. No child will scorch her tongue on a portfolio heavily weighted toward bonds, but that cooler temperature means she may not grow wealth significantly over time. A different portfolio, this time with just 20% in stocks and 80% in bonds, grew one third less over the long term than the "hot" portfolio above.

Hypothetical Returns of an Investment in the S&P 500 Index & Bloomberg U.S. Aggregate Index

1/1/1990 to 3/31/2023



Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index. Note: views are from a U.S. dollar perspective. The rebalanced portfolio is rebalanced on a quarterly basis. Source: Kestra Investment Management with data from Morningstar. Index proxies: S&P 500 Index and Bloomberg U.S. Aggregate Index. Data as of March 31, 2023.

For most investors, that "just-right" portfolio is somewhere in the middle. Papa Bear, in this instance, had the "hot" portfolio. He had many more years to work before retirement and was comfortable with the wild ride that a portfolio heavy with stocks can provide. Mama Bear, on the other hand, relied on a steady stream of income to fund her berry picking and honey hunting. Neither of these portfolios was *wrong*, they were just wrong *for Goldilocks*. She knew, as soon as she tasted the porridge, that hot and cold bowls were not for her.

Keep in mind that most of us don't live in a fairytale world and could benefit from a guide to these decisions. One Vanguard study estimated that financial advisors can help clients earn an additional 3% from a combination of proper asset allocation, portfolio rebalancing and coaching. There's no need to wander around alone in the woods.

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