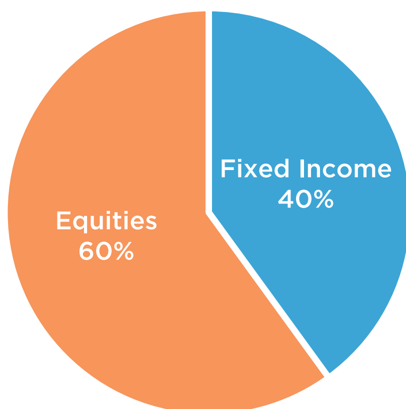
The Classic 60/40 Portfolio

Prepared by: AHAM Asset Management

• What is the 60/40? •



The 60/40 portfolio has long been a cornerstone of investors' portfolio especially those seeking a balanced approach to risk and return.

With its allocation of 60% to stocks and 40% to bonds, this strategy has historically offered a middle ground, allowing investors to harness the potential of equities while benefiting from the stability that bonds bring to the table.

• Pros •

Balancing Risk and Return

The primary advantage of the 60/40 portfolio is its capacity to balance the higher risk and return potential of stocks with the stability and income generation of bonds. This equilibrium has traditionally offered investors a smoother ride through market fluctuations.

Diversification Benefits

Bonds, renowned for their defensive attributes, provide stability during market downturns and can serve as a reliable component for long-term wealth preservation. Its low correlation to equities means that bonds tend to move inversely with equities, helping cushion losses during a market downturn.

• Cons •

Prioritises Stability Over High Returns

A 60/40 portfolio may sacrifice some returns for the sake of stability. E.g., A 60/40 portfolio may see lower returns compared to an-all equity portfolio especially during bull markets when economic growth is strong. However, it would also decline less when market conditions become less favourable, as its allocation in bonds would provide a buffer in the portfolio.

Not Immune to Volatility

A 60/40 portfolio, like any investment strategy, is susceptible to market volatility. However, investors can mitigate this risk through disciplined financial behaviour, taking a long-term view, and using investing techniques like dollar-cost averaging.

• Who is it Suited for? •

The 60/40 portfolio isn't a one-size-fits-all solution. But it shines brightly for moderate risk-takers who seek a balance between capital growth and income.

The 60% allocation to stocks introduces an element of growth potential, allowing investors to participate in the market's upside, while the 40% allocation to bonds acts as a stabilsing force during periods of market turbulence through a consistent income. The 60/40 portfolio offers simplicity in its structure, making it particularly appealing to investors who prefer a straightforward and easy-to-manage investment strategy. The balanced nature of the portfolio also encourages a patient and disciplined strategy, allowing investors to weather short-term market fluctuations without feeling compelled to make frequent changes.

• Why It Remains a Classic •

While the 60/40 portfolio has seen some weakness especially in 2022 when both stocks and bonds fell as interest rates shot up, it is unwise the dismiss this long-proven strategy.

Given how much bond yields have risen over the last 2 years, the outlook for fixed income has increasingly turned more constructive. Investors can now lock in higher yields with certainty to generate a consistent income stream by clipping the coupons.

This favourable backdrop becomes even more pronounced as we enter the next rate cut cycle with the potential to reap capital gains. The diversification benefits and defensive attributes of bonds are also expected to reassert themselves again, providing a buttress to an investor's portfolio.

As for equities, we see attractive entry points for investors to build exposure in EMs given the relatively low valuations in the region compared to historical averages. A potentially stronger Ringgit could also present opportunities for investors in building a multi-currency portfolio to achieve greater diversification across regions with their own distinct economic cycles and country fundamentals.

While a 60:40 portfolio would not be immune to volatility, investors can increase their chances of success through discipline and better financial behaviour. For instance, by taking a long-term view of their investments and practising dollar-cost averaging, investors can stay on track and avoid the risk of bad timing. As always, diversification is key in lowering portfolio volatility to help investors stay the course.

Book an appointment with us via the link below or scan the QR code.
https://aham.com.my/get-in-touch/book-an-appointment

Disclaimer: This article has been prepared by AHAM Asset Management Berhad (formerly known as Affin Hwang Asset Management Berhad) (hereinafter referred to as "AHAM Capital") specific for its use, a specific target audience, and for discussion purposes only. All information contained within this presentation belongs to AHAM Capital and may not be copied, distributed or otherwise disseminated in whole or in part without written consent of AHAM Capital. The information contained in this presentation may include, but is not limited to opinions, analysis, forecasts, projections and expectations (collectively referred to as "Opinions"). Such information has been obtained from various sources including those in the public domain, are merely expressions of belief. Although this presentation has been prepared on the basis of information and/or Opinions that are believed to be correct at the time the presentation was prepared, AHAM Capital makes no expressed or implied warranty as to the accuracy and completeness of any such information and/or Opinions. As with any forms of financial products, the financial product mentioned herein (if any) carries with it various risks. Although attempts have been made to disclose all possible risks involved, the financial product may still be subject to inherent risk that may arise beyond our reasonable contemplation. The financial product may be wholly unsuited for you, if you are averse to the risk arising out of and/or in connection with the financial product. AHAM Capital is not acting as an advisor or agent to any person to whom this presentation is directed. Such persons must make their own independent assessments of the contents of this presentation, should not treat such content as advice relating to legal, accounting, taxation or investment matters and should consult their own advisers. AHAM Capital and its affiliates may act as a principal and agent in any transaction contemplated by this presentation, or any other transaction connected with any such transaction, and may as a result earn brokerage, commission or other income. Nothing in this presentation is intended to be, or should be construed as an offer to buy or sell, or invitation to subscribe for, any securities. Neither AHAM Capital nor any of its directors, employees or representatives are to have any liability (including liability to any person by reason of negligence or negligent misstatement) from any statement, opinion, information or matter (expressed or implied) arising out of, contained in or derived from or any omission from this presentation, except liability under statute that cannot be excluded.