What Drives 88% of Your Return? Asset Allocation

Every investor has unique needs, objectives, and wants. Some may have a short-term eye on buying a house. Others may have a long-range goal of retiring at age 60. And even a select few may want their money to last beyond their lives—to leave a legacy for family or charity.

As such, there's no one "right" risk profile or return target for everyone. Instead, there is a broad range of allocations to meet each individual's profile. We account for this breadth by combining our strategies into over 140 various combinations, where each has a categorical goal—to deliver near-term income, grow for the future, or a combination of both.

Motley Fool
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Asset allocation ingredients

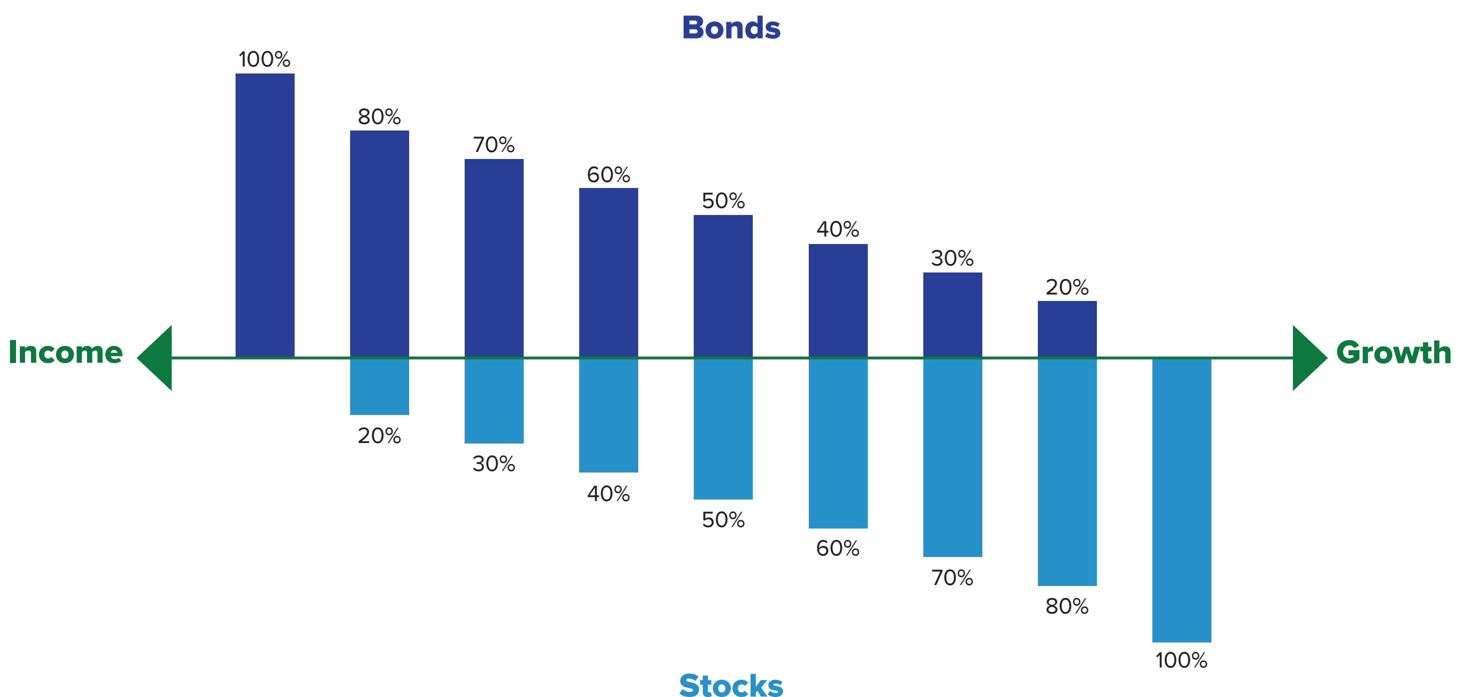
To achieve these broad goals, we blend various percentage of asset classes—stocks and bonds—to create an individualized personal portfolio.*

Stocks are known as risk assets, where they tend to deliver higher returns, but also experience more volatility, than bonds. Bonds tend to be less risky, but also offer lower returns. Within each of these asset classes, there are sub asset classes—like small-cap, international, or dividend-paying stocks and investment-grade or high-yield bonds. Each sub asset class also displays unique risk and return attributes. Every combination has a different level of risk and return associated with it.

Understanding allocation combinations

Why does assigning the right asset allocation matter? For one important reason—data show that 88% of returns from a diversified portfolio come from asset allocation.[1] So getting your asset allocation right is critical to reaching your goals. And fortunately, it's also within your control.

Here we show you several asset allocations and their objectives. These are just illustrations of how changing the portfolio mix has historically influenced average returns and the possibility of loss. It's important to note these are not the combinations of our strategies. Rather, this guide explains how asset allocation decisions may impact risk and return expectations.



Historical Risk/Return (1926-2021)

100% bonds

Average annual return: **6.3%**

Best year (1982): **45.5%**

Worst year (1969): **-8.1%**

Years with a loss: **20 of 96**

20% stocks / 80% bonds

Average annual return: **7.5%**

Best year (1982): **40.7%**

Worst year (1931): **–10.1%**

Years with a loss: **16 of 96**

30% stocks / 70% bonds

Average annual return: **8.1%**

Best year (1982): **38.3%**

Worst year (1931): **–14.2%**

Years with a loss: **18 of 96**

40% stocks / 60% bonds

Average annual return: **8.7%**

Best year (1982): **35.9%**

Worst year (1931): **–18.4%**

Years with a loss: **19 of 96**

50% stocks / 50% bonds

Average annual return: **9.3%**

Best year (1982): **33.5%**

Worst year (1931): **–22.5%**

Years with a loss: **20 of 96**

60% stocks / 40% bonds

Average annual return: **9.9%**

Best year (1933): **36.7%**

Worst year (1931): **–26.6%**

Years with a loss: **22 of 96**

70% stocks / 30% bonds

Average annual return: **10.5%**

Best year (1933): **41.1%**

Worst year (1931): **–30.7%**

Years with a loss: **23 of 96**

80% stocks / 20% bonds

Average annual return: **11.1%**

Best year (1933): **45.4%**

Worst year (1931): **–34.9%**

Years with a loss: **24 of 96**

100% stocks

Average annual return: **12.3%**

Best year (1933): **54.2%**

Worst year (1931): **–43.1%**

Years with a loss: **25 of 96**

[1] Vanguard, The Global Case for Strategic Asset Allocation, 2012

Source: Vanguard. Data for the U.S. stock market returns comes from the Standard & Poor's 90 Index from 1926 to March 3, 1957, and the Standard & Poor's 500 Index thereafter. Data for the U.S. bond market originates from the Standard & Poor's High Grade Corporate Index from 1926 to 1968, the Salomon High Grade Index from 1969 to 1972, and the Barclays U.S. Long Credit Aa Index thereafter. Data for U.S. short-term reserves is from the Ibbotson U.S. 30-Day Treasury Bill Index from 1926 to 1977 and the FTSE 3-Month U.S. Treasury Bill Index thereafter. Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

*We tailor our asset allocation recommendations for each client. However, our selection of individual securities is not personally tailored to client accounts. Rather, the individual securities purchased and sold for client accounts are based upon and track the holdings in our Model Portfolios which correspond to each strategy.

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