

ABOVE THE FRAY

Keep Your Investment Appetite in Check

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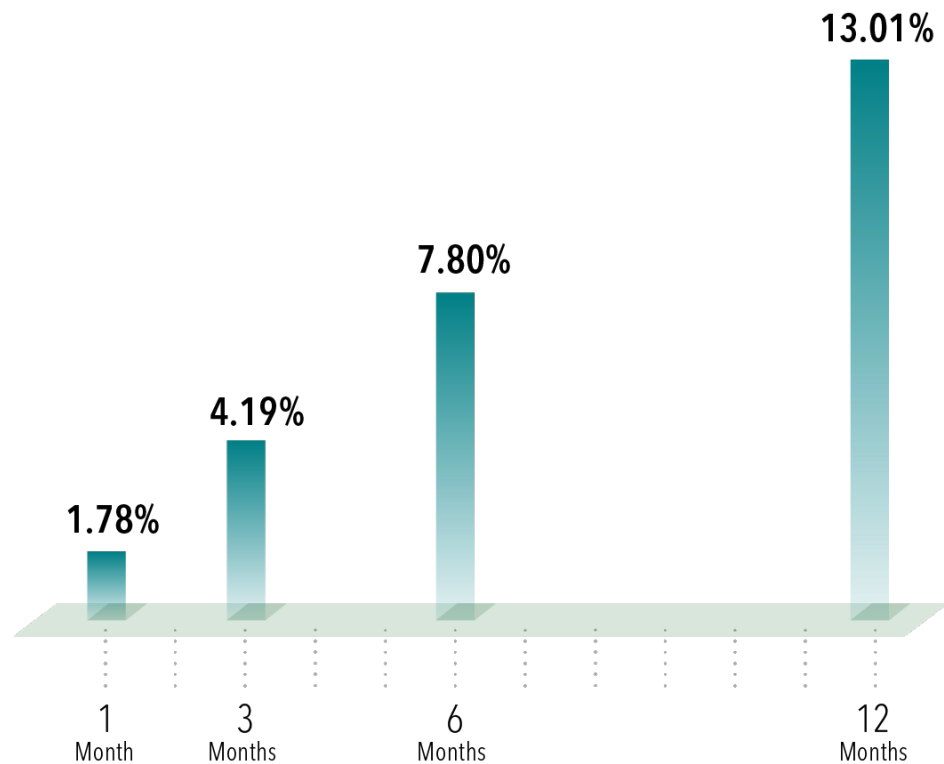
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Everyone knows it's ill-advised to go grocery shopping when you're hungry. Your appetite in the moment is different than in normal circumstances, so you're likely to buy foods you'll never actually eat. I break this rule all the time, which is how I end up with four boxes of frozen mozzarella sticks.

Similar caution should apply when it comes to asset allocations in the wake of market downturns. When stocks decline, investors may be tempted to move into cash in order to avoid any further losses. That's only natural, as the appetite for risk likely changes following the first drop. However, history tells us that's probably the wrong move. A balanced asset allocation of 60% stocks and 40% bonds has on average outpaced cash in periods following three-month market declines. An investor sitting on the sideline might eventually turn nauseous at the missed opportunity from a market rebound.

Exhibit 1**Appetite for Destruction**

Average relative outperformance of a 60/40 portfolio vs. a cash allocation following a 3-month US stock market decline of 10% or more, February 1982–June 2025

**Past performance is not a guarantee of future results.**

The 60/40 allocation is 60% Russell 3000 Index and 40% Bloomberg US Aggregate Bond Index and is rebalanced monthly.

In USD. US equity performance is measured by the Russell 3000 Index. There are 29 three-month periods where equities declined 10% or more. Of those, the 60/40 portfolio outperformed cash in the following one-, three-, six-, and 12-month periods in 20, 22, 21, and 25 periods, respectively. Cash is represented by the three-month US Treasury bill. Equity losses of more than 10% over three months trigger the move from a 60/40 portfolio to all cash. All performance results of the hypothetical models are based on performance of indices with model/backtested asset allocations; the performance was achieved with the benefit of hindsight; it does not represent actual investment strategies. The model's performance does not reflect advisory fees or other expenses associated with the management of an actual portfolio. There are limitations inherent in model allocations. In particular, model performance may not reflect the impact that economic and market factors may have had on the advisor's decision-making if the advisor were actually managing client money. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. "Three-month US Treasury bill" source: US Treasury via Ibbotson/Morningstar. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Bloomberg index data is provided by Bloomberg.

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