Multi-Asset Model Portfolio Investing: The Evolution Continues
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In the mid-eighties, I had just started working at Russell Investments when multi-asset model portfolio investing began to emerge across our industry. Russell Investments launched its first multi-asset model portfolio product for U.S. individual investors in 1985, 30 years ago this month. However, it wasn’t until 1990 that Harry Markowitz was recognized with a Nobel Prize in economics for statistically demonstrating the potential investment benefits of combining assets with low or negative correlations.

Investing in the ‘80s was so different. Back then, Paul Volker was chairman of the Federal Reserve, inflation was around 3.1%, the 10-year U.S. Treasury was yielding 10.4% and the S&P 500® ended at 186 as of September 30, 1985.

Fast-forward to today. Janet Yellen leads the Fed, U.S. core inflation is nearly nonexistent at 1.9%, the 10-year U.S. Treasury is yielding 2.0% and the S&P 500 stood at 2033 as of October 16, 2015. In just the last 15 years alone, global markets have grown exponentially and become increasingly interconnected.

While the U.S. remains the world’s largest economy today, China has emerged rapidly in the last three decades. In 1985, China was deeply entrenched in its communist ways, with a GDP of just $307 billion (USD). Compare that to 2015, and China is the world’s second largest economy with an estimated GDP between $10.3 and $10.5 trillion (USD).

Bottom line, times have changed. And our multi-asset portfolio investing has evolved too. For example, 30 years ago, our Balanced Model Strategy for U.S. individual investors was a simple 6-fund portfolio with a 6% allocation to international equities. Today, the Strategy is a deeply diversified solution of 11 funds that include a broad range of asset classes including real estate, commodity strategies, infrastructure, as well as a 43% allocation to global and international mandates.

We are constantly learning, always seeking to deepen diversification and help to better manage risk, based on capital markets insights and other forecasts.

So, as the world continues to grow and markets change, how will this affect our multi-asset investing? It is our firm belief that multi-asset investing must include a dynamic approach that allows portfolios to
adapt to changing market conditions, helping to balance market risks and rewards.

As our Global Chief Investment Officer Jeff Hussey recently said, “Looking ahead to the next 30 years, although uncertainty in the short-term is always part of investing, we know a multi-asset model portfolio approach can help us continue to work towards meeting clients’ desired outcomes.”

Just one example of where things are likely to change is in emerging and frontier markets. Countries like China and Brazil, currently commonly classified as emerging markets, are likely to develop further. Similarly, as frontier markets grow, many countries in this category will continue to grow their own economies along the way. Such developments increase opportunities for diversification and potential for risk, which have to be accounted for carefully in any investing approach.

Ultimately, we believe such changes will bode well for our style of multi-asset investing. Because as older industries and economies give way to new markets and new innovations, our portfolio managers are well positioned through our on-the-ground manager research capabilities, access to multi-manager views, and dynamic asset allocation to identify opportunities as they evolve.

We’re proud to have reached this 30 year milestone and we look forward to the next 30 years. As Jeff said, we firmly believe that patient and disciplined investors who diversify globally through a multi-asset portfolio approach are likely to be able to take advantage of future growth.

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1 September 2015 U.S. core inflation. Ycharts.com

