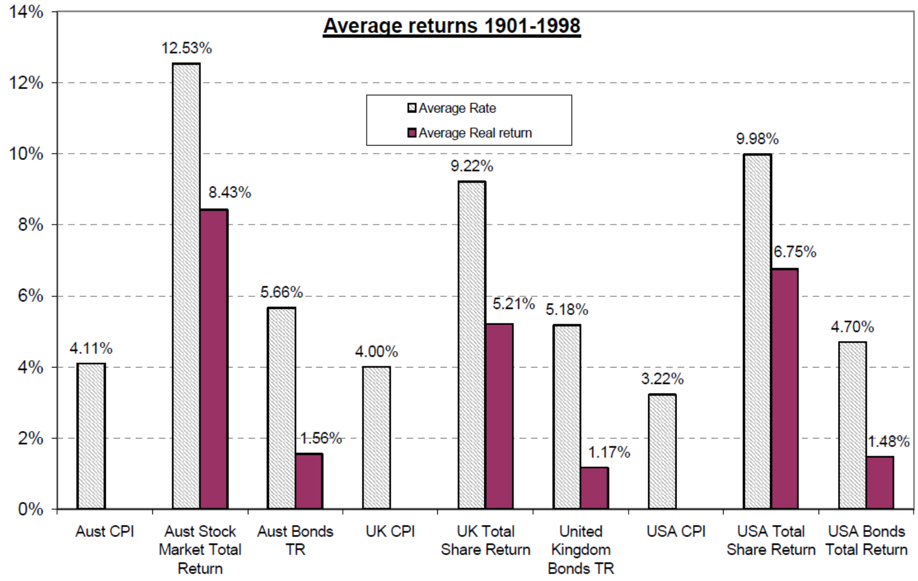
Static Asset Allocation often fails over the long term. Consider medium-term market timing.
8/4/20   For clients of Puzzle Financial Advice

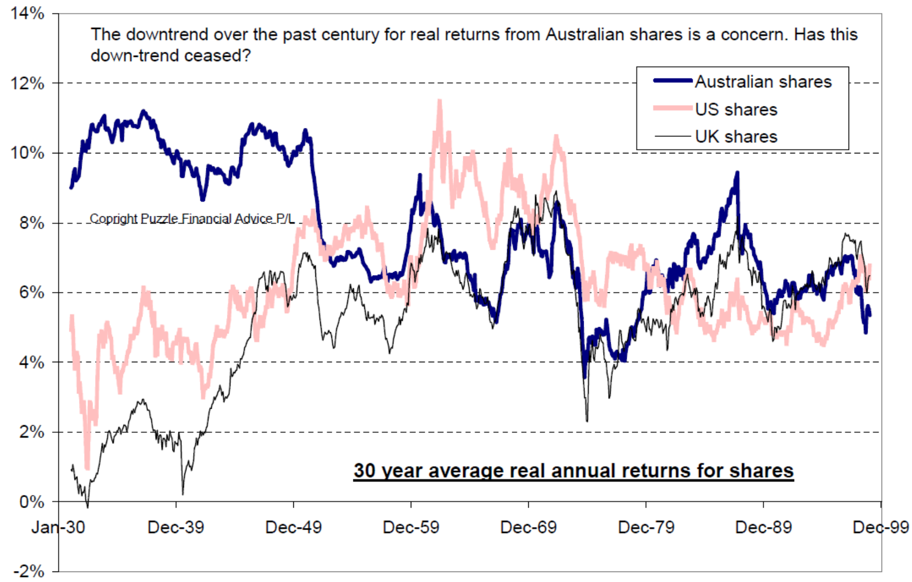
Shares and property DO NOT always deliver a good return over the long-term, despite a widespread belief to the contrary. This brief paper discusses the historical evidence including giving your some of the concepts and theories behind this. And **this paper discusses how to recognise when you are in a period where this long-term-buy-and-hold concept fails**.

Because of very long-term averages in the 20th century like the following chart, there is a very widespread use of static asset allocation strategies that are something like 70% growth assets (traditionally shares and property) and 30% defensive assets (traditionally bonds and cash). The belief behind this is, that if you are prepared to ride the short-term volatility, this sort of widely diversified portfolio will always deliver a good long-term investment outcome. **The trouble is, it is just not true.**



Extremely 100-year averages can hide periods of 20 or 30 years negative really returns, periods which are absolutely terrible for a lot of investors.

After less than 10 years of terrible returns, long-term investors normally abandon their long-term strategies…. Some would argue that most investors would abandon their long-term strategies after 3 years of bad returns.



It is useful to understand historically, what the reasons have been for failures in long-term buy & hold strategies for widely diversified investors. Here are some of those reasons:

- The historical evidence. https://www.puzzlefinancialadvice.com/financial-security
- **Debt bubble crashes.** http://puzzlefinancialadvice.com.au/2018/Core/Debt_bubble_asset_price_crash_relationship_161019.pdf – particularly relevant now
    - A related discussion on debt bubbles is here.
        - https://www.puzzlefinancialadvice.com/single-post/2019/10/17/Too-much-private-debt-caused-the-last-43-crises Perhaps you could read the book, discussed at this link.
- **Secular bear markets**. http://puzzlefinancialadvice.com.au/Secular_and_Cyclical_Markets_13_141217.pdf
- **Asset price bubbles**. If you buy an asset or an asset class that is very expensive in comparison with long-term norms, you should not expect to receive a good return over the very long term. (eg 10 years). http://puzzlefinancialadvice.com.au/Papers/Shiller_CAPE_PE10_as_a_guide_to_future_performance_130726.pdf
    - To understand more about asset price bubbles, you probably should read Kindleberger's book "Manias, Panics, and Crashes: A History of Financial Crises".
        - https://www.amazon.com.au/Manias-Panics-Crashes-History-Financial/dp/0471467146
- http://puzzlefinancialadvice.com.au/2019/Core/Ray_Dalio_on_Paradigm_Shifts_190730_02.pdf – particularly relevant now.

Because of the above reasons, I would also argue that the mainstream approach to "buy and hold" does not have a robust intellectual basis for it.

- Yes, long-term buy-and-hold conveniently DOES WORK, during a long secular bull market … and Australia and USA have been in the longest secular bull market over the last 200 years … with the current secular bull market commencing in 1982 (THAT IS, OLDER THAN THE FINANCIAL PLANNING PROFESSION IN AUSTRALIA – and so very few advisers or investors in Australia understand what a secular bear market is, or what investment strategies survive in a secular bear market). Based on US experience, going back to 1820, secular bull markets only average 20 years .. and this current one is 38 years without a secular bear market – a clear historic record. So the mainstream "buy and hold" is flawed – and it will fail in the next secular bear market … just as that strategy would have failed if it was implemented in Japan in 1989 …. investors using that strategy in Japan post 1989 would have been financially devastated. That sort of difficult investment market is still ahead for Australian and US investors.
    - Needless to say, I think that it is now a very high probability that the long-term secular bull market in USA and Australia probably ceased in February 2020.

What is the alternative to long-term buy-and-hold? At Puzzle Financial Advice, our very long-term research clearly highlights some of the major problems with long-term buy-and-hold strategies. Our alternative is to be a medium-term market timer. We try to understand major medium-term risk factors, and to emphasise trying to pick major medium-term turning points, at which point, we seek to make major adjustments to clients portfolio. Eg:

- Seeking top sell at major market tops – like we have on 23/Feb/2020 AND
- seeking to buy at major market bottom AND
- we also seek to identify major new medium-to-long-term trends that might be beneficial to our clients – because the world keeps changing:
    - https://www.puzzlefinancialadvice.com/largest-emergence-event

- https://www.puzzlefinancialadvice.com/technology-change
- https://www.puzzlefinancialadvice.com/disruption