

# The Evolution of Investment Strategies: Rethinking the 60/40 Stock-Bond Portfolio in Today's Market

## Introduction

The 60/40 stock-bond portfolio has long been considered a staple investment strategy for balancing risk and returns. This approach, which allocates 60% of a portfolio to stocks and 40% to bonds, is rooted in the historical performance of these asset classes. However, in today's rapidly evolving market landscape, characterized by low interest rates, increased market volatility, and



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unconventional monetary policies, the efficacy of the traditional 60/40 portfolio is being questioned. According to a recent Barron's article on the topic, "there are just two problems with 60/40 investing: the 60 and the 40. Stocks are precariously priced, and bonds might not offer the protection they're supposed to." So what is an investor to do when a strategy that has been relied upon for so long, seems to no longer hold promise? This paper aims to explore the reasons behind the diminishing effectiveness of the 60/40 portfolio and suggest an alternative avenue for investors that may enhance their returns, focusing on the potential benefits of investing in private cannabis real estate.

## Challenges to the 60/40 Portfolio

### 1. *Increased Market Volatility:*

Market volatility has risen in recent years due to various factors, including geopolitical tensions, rapid technological advancements, and global economic uncertainties. This heightened volatility has led to instances where both stocks and bonds experience simultaneous price declines, undermining the diversification benefits that the 60/40 portfolio once offered. The historical negative correlation between stocks and bonds has eroded, potentially leaving investors with reduced downside protection during market downturns.

### 2. *Changing Macroeconomic Landscape:*

Unconventional monetary policies, such as quantitative easing, have distorted traditional market dynamics. These policies have led to inflated asset valuations and increased correlations between various asset classes. Consequently, the assumptions upon which the 60/40 portfolio was built may no longer hold true in the current market environment.

### 3. *Diversification:*

One of the key perceived benefits of a 60/40 stock bond portfolio is diversification. However, as Alex Shahidi, from Evoke Advisors, pointed out in an article for Forbes Finance

Council, the “60/40 exhibits a surprisingly high correlation to a 100%-equity portfolio over the long run, which means it mathematically is not well-diversified, according to our firm’s analysis. The high correlation results from stocks being materially more volatile than traditional bonds, which leads stocks to drive the returns of the total portfolio.”

### **Exploring Alternative Avenues: Private Cannabis Real Estate**

Amidst these challenges, investors are seeking innovative ways to enhance returns and diversify their portfolios. One such avenue is investing in private cannabis real estate. Cannabis has emerged as a burgeoning industry with significant growth potential, driven by increasing legalization efforts and shifting societal attitudes. Investing in cannabis real estate, which includes properties used for cultivation, processing, and distribution, offers several potential benefits for investors.

#### *1. Diversification:*

Cannabis real estate is a relatively new asset class that is less correlated with traditional stocks and bonds. This may provide investors with an opportunity to diversify their portfolios and potentially reduce overall risk. As the cannabis industry operates somewhat independently of broader economic trends, its performance may not be as closely tied to traditional market fluctuations.

#### *2. Growth Potential:*

The cannabis industry is still in its nascent stages, with considerable room for growth as legalization efforts expand. Investing in cannabis real estate allows investors to tap into the potential for increased demand for cultivation and distribution facilities, which could lead to potential capital appreciation.

#### *3. Income Generation:*

Similar to traditional real estate, cannabis real estate properties can generate rental income for the owners of these properties. If the fund originates mortgages on cannabis real estate, the monthly payment can provide an attractive source of income. As the cannabis industry matures, demand for well-located properties is expected to increase, potentially leading to stable and attractive rental income streams for investors.

### **Conclusion**

The 60/40 stock-bond portfolio, once a steadfast investment strategy, is facing challenges in today's evolving market. Increased market volatility and unconventional monetary policies have led to a reevaluation of its effectiveness. As investors seek alternatives, the private cannabis real estate market stands out as an intriguing option. With its potential for diversification, growth, and income generation, investing in cannabis real estate, or a cannabis real estate fund, could offer a means to enhance returns while navigating the complexities of the modern investment landscape. However, it's important to note that the cannabis industry is still evolving, and like any investment, it carries its own set of risks that investors must carefully consider.

Sources:

- 1) Barron's. "The 60/40 Portfolio Is Broken. Here's One Way to Fix It" ([link](#))
- 2) Forbes. "The 60/40 Portfolio Is Not Dead; It's Just Not Well-Balanced" ([link](#))