

THE GROUNDWORK — ARTICLE 06

Beyond 60/40

Why the default portfolio is a bet in disguise, and how to build one that isn't

Over the previous five articles, we established the foundations: why investing beats holding cash, what risk premiums are and how they behave, why supply and demand drive their magnitude, and why diversification is the only genuine free lunch in finance. This final article brings everything together. It explains why the portfolio that most people default to — 60% equities, 40% bonds — is not as balanced as it appears, introduces the framework that fixes the problem, and walks through the specific construction of the Desert Frontier Beta portfolios.

The 60/40 Illusion

The 60/40 portfolio — 60% equities, 40% bonds — is the most widely adopted allocation in the world. It is the default recommendation of most financial advisors, the benchmark against which balanced funds are measured, and the starting point for virtually every institutional portfolio. It has a long and respectable track record. Over the past four decades, 60/40 has delivered attractive returns with moderate volatility, and it has done so through multiple market cycles.

The problem is that 60/40 is not actually balanced. It is a concentrated bet on equities dressed up as diversification. The reason is arithmetic. Equities are roughly three times as volatile as bonds. When you allocate 60% of your *capital* to equities, you are allocating approximately 90% of your *risk* to equities. The 40% bond allocation contributes roughly 10% of the portfolio's risk. In any environment where equities fall, a 60/40 portfolio falls almost as much as a 100% equity portfolio. The bonds barely cushion the blow.

This is not a theoretical critique. In 2022, when the Federal Reserve raised interest rates aggressively, stocks and bonds fell simultaneously. The S&P 500 lost roughly 18% and the Bloomberg US Aggregate Bond Index lost roughly 13%. A 60/40 portfolio lost approximately 16%. The supposed diversifier — the 40% in bonds — provided almost no protection. For the first time in a generation, investors learned what happens when the correlation between stocks and bonds turns positive: the illusion of balance evaporates.

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The deeper issue is that 60/40 is constructed on the basis of *capital allocation* — how many dollars you put into each bucket. But risk does not care about dollars. Risk cares about volatility and correlation. A dollar in equities carries more risk than a dollar in bonds, which carries more risk than a dollar in cash. Treating all dollars as equal when allocating a portfolio is like treating all employees as equal when assigning tasks regardless of their skills. The result is a lopsided outcome that depends almost entirely on one asset class doing well.

The Risk Parity Principle

The alternative is to allocate by **risk contribution** rather than capital. This is the core idea behind risk parity, and it is both simple and powerful: instead of asking “how much money should I put in each asset?” you ask “how much risk should each asset contribute to my portfolio?”

If each asset class offers a risk premium — and we established in Article Three that they do — then each one should contribute equally to the portfolio's overall risk. This means allocating more capital to lower-volatility assets (like bonds and TIPS) and less capital to higher-volatility assets (like equities and commodities). The result looks counterintuitive at first: a risk parity portfolio might hold only 20–25% in equities, compared to 60% in a traditional allocation. But that smaller equity allocation contributes the *same amount of risk* as the larger bond allocation, because each dollar of equities carries more volatility.

The table below illustrates the difference. In a 60/40 portfolio, equities dominate the risk budget. In a risk parity portfolio, the risk budget is distributed evenly across multiple asset classes — each one serving a different economic purpose.

	60/40 Portfolio	Risk Parity
Capital Allocation		
Equities	60%	~20–25%

Bonds	40%	~35–45%
Real Assets / Other	0%	~15–25%
Cash	0%	~15–30%
Risk Contribution		
Equities	~90%	~25%
Bonds	~10%	~25%
Real Assets / Other	0%	~25%
Cash	0%	~25%

Illustrative. Capital allocations are approximate and vary by implementation. Risk contributions based on long-term volatility estimates.

The practical consequence is significant. A portfolio where each risk bucket contributes 25% of the total risk does not depend on any single economic outcome. Equities can fall 30% and the portfolio absorbs the hit because equities represent only a quarter of the risk. Bonds can sell off during an inflation shock and the portfolio survives because inflation-linked assets and commodities are pulling in the other direction. No single environment is catastrophic. That is the entire point.

Risk parity does not ask “how much money should I put in each asset?” It asks “how much risk should each asset contribute?” The shift from capital allocation to risk allocation is the single most important upgrade most investors can make.

From Principle to Portfolio: The Desert Frontier Beta Construction

The Desert Frontier Beta portfolios apply this framework using liquid, low-cost ETFs that any investor can access. The flagship portfolio — Desert Frontier Beta — holds nine components across five asset classes, each selected because it brings a distinct and valuable return stream.

ETF	Role	Allocation	Risk Bucket
Equities — Growth Engine			
SPY	US large-cap equities	9.2%	Growth
VEA	Developed int'l equities	9.2%	Growth
Nominal Bonds — Deflation Protection			

TLT	US long-term Treasuries	6.9%	Deflation
IGOV	Int'l government bonds	11.0%	Deflation
Inflation-Linked Bonds — Real Return Protection			
TIP	US TIPS	13.3%	Inflation
WIP	Int'l inflation-linked bonds	5.0%	Inflation
Real Assets — Debasement & Supply Shock Protection			
GLD	Gold	9.3%	Debasement
GSG	Broad commodities	6.0%	Inflation
Cash — Risk Management			
Cash	Risk-free floor / dry powder	30.0%	Stability

Desert Frontier Beta baseline allocation. Weights are derived from risk contribution targeting and rounded for practical implementation. Subject to periodic rebalancing.

Notice the structure. The total equity allocation is only about 18% — far less than the 60% in a traditional portfolio. But because equities are three times as volatile as bonds, that 18% contributes roughly the same risk as the 36% allocated to bonds and inflation-linked securities. Gold and commodities provide the inflation and debasement hedge. Cash at 30% serves as a risk management anchor and provides liquidity to rebalance into dislocations.

Every asset in the portfolio has a *reason for being there*. SPY and VEA collect the equity risk premium across US and international markets. TLT and IGOV provide protection during deflationary recessions when central banks cut rates. TIP and WIP protect purchasing power during inflation surprises. GLD hedges against monetary debasement and currency uncertainty. GSG captures the commodity supply premium. And cash provides the floor that makes the entire structure resilient.

Why This Matters: The Track Record

The idea behind this approach is not new. Bridgewater Associates, the world's largest hedge fund, built its All Weather portfolio on exactly this foundation in the 1990s. The concept — allocating risk equally across assets that respond to different economic environments — has produced a track record spanning decades, through the dot-com bust, the Global Financial Crisis, the European debt crisis, the COVID crash, and the 2022 rate shock.

What Desert Frontier Beta does is make this framework accessible. Bridgewater's All Weather fund is available only to institutional investors with multi-million dollar minimums. The underlying logic, however, is not proprietary. It is built on publicly available research and well-understood financial

principles. The Desert Frontier Beta portfolios implement this same logic using ETFs that any investor can buy through a standard brokerage account, at a fraction of the cost and with full transparency into the weights and rationale.

This is not about competing with Bridgewater. It is about recognising that the *idea* is too good to remain locked behind institutional gates. If risk parity is a superior framework for building portfolios — and the evidence suggests it is — then it should be available to everyone, not just those who can write a \$100 million cheque.

Not Just for Individuals

The same logic that applies to an individual's savings applies to a company's balance sheet. Corporations routinely hold surplus cash and treasury reserves in bank deposits or short-term government securities, earning next to nothing after inflation. The cost of this conservatism compounds silently year after year.

A company that allocates a portion of its surplus to a risk parity framework gains several advantages: a higher expected return than cash, genuine diversification across economic environments, and a transparent allocation that any board can understand and any auditor can verify. The 30% cash reserve in the Desert Frontier Beta portfolio is not accidental — it reflects the reality that many investors and companies need liquidity at all times. The remaining 70% collects risk premiums across five asset classes without concentrating on any single outcome.

Risk parity is not just for individuals. Any entity managing a pool of capital — corporate treasury, endowment, family office, or personal savings — can benefit from allocating risk rather than dollars.

The Five Desert Frontier Beta Portfolios

Desert Frontier Beta is the flagship, but it is not the only option. The Desert Frontier Beta platform offers five portfolio products, each serving a different purpose:

- **US Frontier Beta** — Core US market beta exposure, for investors who want to focus on American assets while maintaining risk parity principles across US equities, Treasuries, TIPS, and gold.
- **Global Frontier Beta** — Non-US beta exposure, capturing risk premiums from international equities, government bonds, inflation-linked securities, and commodities. The complement to US Frontier Beta.
- **Desert Frontier Beta** — The flagship portfolio combining US and global exposure with a cash reserve, weighted by risk contribution. The comprehensive beta engine.
- **Oasis Beta** — The preservation portfolio. One-third gold, one-third global equities, one-third global inflation-protected bonds. Designed as a shelter when the macro environment turns hostile — purchasing power protection above all else.
- **Meridian Beta** — The passive benchmark combining US and Global Frontier Beta. A reference point against which all other portfolios can be measured.

Each portfolio is built from the same liquid ETFs, rebalanced periodically, and published with full transparency. There is no black box. Every weight, every asset, and every rationale is documented and accessible.

The Bottom Line

The 60/40 portfolio was a good idea for a different era. It served investors well when bond yields were falling for four decades, providing both income and capital appreciation that cushioned equity drawdowns. But the structural conditions that made 60/40 work — disinflation, declining rates, negative stock-bond correlation — are not guaranteed to persist. What does persist is the mathematics of diversification and the existence of risk premiums across multiple asset classes.

Risk parity is not a trade or a market view. It is a framework for building portfolios that collect risk premiums from everywhere, balance the risk budget across economic environments, and do not depend on any single outcome to deliver. It is the logical conclusion of everything we have covered in this series: if risk premiums exist, diversification works, and risk is what matters — then allocate by risk. That is what the Desert Frontier Beta portfolios do.

This concludes the Groundwork series. The foundations are laid. In future publications, we will explore the macro themes shaping portfolio construction today, provide regular portfolio updates, and continue building the tools that make institutional-quality beta investing available to everyone.

*This article concludes **The Groundwork** — a six-part series by Desert Frontier Advisors covering the foundations of beta investing. Coming next: **The Landscape** — macro themes shaping portfolio construction.*

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