The *7Twelve*® Balanced Strategy: The Core of "Core and Explore"

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Let's consider two blueprints or models for the "core" of a portfolio. A common starting point or portfolio "core" might be a balanced fund with a 60/40 allocation pattern—60% equity and 40% fixed income. Still another possible core portfolio holding could be a variety of mutual funds or ETFs that collectively incorporate domestic and non-US equity, diversifying assets, and a variety of fixed income asset classes. In essence, such a portfolio "core" would itself be a diversified portfolio. If diversification is a central tenet of modern portfolio theory, then it is completely logical that the "basic, essential, or enduring" part of a portfolio—the ***core***—should be diversified.

Introducing the ***7Twelve***® *Portfolio* "core" with its exposure to ***7*** broad asset classes (US equity, non-US equity, real estate, resources, US bonds, non-US bonds, and cash). Each of the ***12*** sub-components (mutual funds and/or ETFs) is equally weighted at 8.33%. The *7Twelve* "core" is rebalanced periodically to maintain the 8.33% equal weighting. As you can see, the largest broad asset weighting is in US equity with 8.33% x 3 = 25% of the overall core. In general, this diversified core has approximately a 65% allocation to equity and diversifying asset classes and a 35% allocation to fixed income. This general allocation categorizes it as a balanced model—but far more diversified than typically found.

7Twelve® Balanced Strategy: A Blueprint for a Diversified 12-Asset Portfolio "Core"

Approximately 65% of the Allocation in Equity and Diversifying Assets				Approximately 35% of the Allocation in Bonds and Cash		
US Equity	**Non-US Equity**	**Real Estate**	**Resources**	**US Bonds**	**Non-US Bonds**	**Cash**
Large Companies	***Developed Markets***	***Real Estate***	***Natural Resources***	***US Aggregate Bonds***	***International Bonds***	***US Money Market***
Medium-sized Companies	***Emerging Markets***		***Commodities/ Clean Energy***	***Inflation Protected Bonds (TIPS)***		
Small Companies						

How has the *7Twelve* diversified "core" performed in comparison to a less diversified 60/40 "core" portfolio holding? As shown below, the *7Twelve* diversified core built with low-cost actively managed mutual funds outperformed a traditional 60/40 two-asset "core" represented by Vanguard Balanced Index (VBIAX) over the past 24 years (1998-2021).

Performance of Two Portfolio "Cores" (assuming annual rebalancing)

Portfolio "Core" Models → 1998-2021	**60% US Stock/40% Bond Core**	**Active _7Twelve_ Portfolio**
		
24-Yr Average Annualized Return (%)	**7.65**	**7.73**
24-Yr Standard Deviation of Annual Returns (%)	**10.52**	**12.75**
24-Year Growth of $10,000	**$58,671**	**$59,752**

The performance figures above represent the performance of the ***"core" of a portfolio***. The overall return of the entire "core and explore" portfolio would depend on the types of investments utilized in the "explore" portion of the portfolio. **The "explore" assets will likely vary with every person, whereas the core could be a consistent element in virtually every portfolio. The amount of the portfolio allocated to the core could also change over an investor's lifecycle, but would likely always be the basic and enduring component over time.**

Ultimately, what I'm proposing is this: the "core" of a portfolio can be known in advance. The core does not need to be designed for each individual client because virtually every portfolio could use the same diversified core element. ***A financial advisor should not be spending time designing a portfolio core for every client.*** Rather, the advisor should be determining how much of the core to utilize for each client and what type of "explore" assets to add around the "core" to best meet the client's unique needs and circumstances. Essentially, the core of a portfolio becomes a commoditized product used by financial advisors. The financial advisor adds considerable value by knowing what individualized "explore" assets should be added to the "core" to best serve the needs of each specific client.

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