

INVESTING 100% OF YOUR PORTFOLIO IN STOCKS



BY BEN CARLSON
A WEALTH OF COMMON SENSE
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A reader asks:

I am a 34-year-old with a high risk tolerance. All of my investment accounts are 100% invested in stocks. The one thing I have a hard time finding a tried and true answer on when I do research is how to best allocate my stock investments among large-cap, mid-cap, international, emerging markets, etc. I'm not looking to get the highest return possible per se (although that would be nice); rather, I am looking to have a well-diversified portfolio that gives me exposure to the various aspects of the stock market so that my long-term return is 7%-10%. I have always utilized the following allocation for no other reason than it seems reasonable and is well diversified:

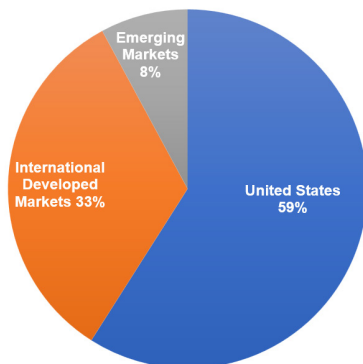
- 33% U.S. large-cap
- 17% U.S. mid-cap
- 16% U.S. small-cap
- 20% developed international
- 14% emerging markets

Does this seem about right to you? Would love to know how you think about your stock allocation and what you utilize as a good benchmark.

I can't promise anything when it comes to future returns for the stock market, but a global benchmark for the stock market is fairly straightforward. The world stock market is a good starting point to compare to your 100% stock portfolio, because that's the investable universe.

Here's the current breakdown based on the Vanguard World Stock Market ETF:

VANGUARD WORLD STOCK MARKET INDEX FUND (VT)

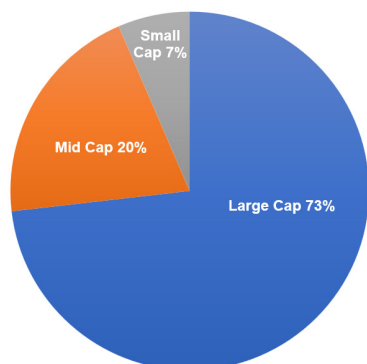


As of 5/31/2023. Source: Vanguard.

That's nearly 60% in U.S. stocks, one-third in foreign developed stocks, and just under 10% in emerging markets.

This is the market cap breakdown on a global basis:

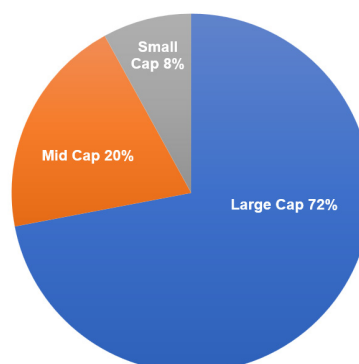
VANGUARD WORLD STOCK MARKET INDEX FUND (VT)



As of 5/31/2023. Source: Vanguard.

The large, mid, and small weightings globally are basically the same as they are in the United States:

VANGUARD TOTAL US STOCK MARKET INDEX FUND (VTI)



As of 5/31/2023. Source: Vanguard.

I'm not saying you have to follow global weightings (actually, the portfolio in question is pretty close). I just think the global market cap is a good jumping-off point to see where you differ from the actual market.

If nothing else, you can use the world stock market as a benchmark for performance attribution and understand where your bets are being made.

Many investors probably assume the S&P 500® Index or a total U.S. stock market index fund should be the benchmark of choice. With the United States making up 60% of the total pie and getting all of the publicity when it comes to the financial media, I understand why this would be the case.

In fact, out of the top 25 holdings for the Vanguard World Stock Market Index Fund, just four are foreign companies:

Symbol	Name	Symbol	Name
AAPL	Apple Inc	TSMWF	Taiwan Semiconductor Manufacturing Co Ltd
MSFT	Microsoft Corp	LLY	Eli Lilly and Co
AMZN	Amazon.com Inc	V	Visa Inc
NVDA	NVIDIA Corp	PG	Procter & Gamble Co
GOOGL	Alphabet Inc	NSRGF	Nestle SA
GOOG	Alphabet Inc	AVGO	Broadcom Inc
META	Meta Platforms Inc	MA	Mastercard Inc
TSLA	Tesla Inc	ASMLF	ASML Holding NV
BRK.B	Berkshire Hathaway Inc	CVX	Chevron Corp
UNH	United Health Group Inc	HD	The Home Depot Inc
XOM	Exxon Mobil Corp	MRK	Merck & Co Inc
JNJ	Johnson & Johnson	SSNLF	Samsung Electronics Co Ltd
JPM	JPMorgan Chase & Co		

As of 6/30/23. Source: Vanguard.

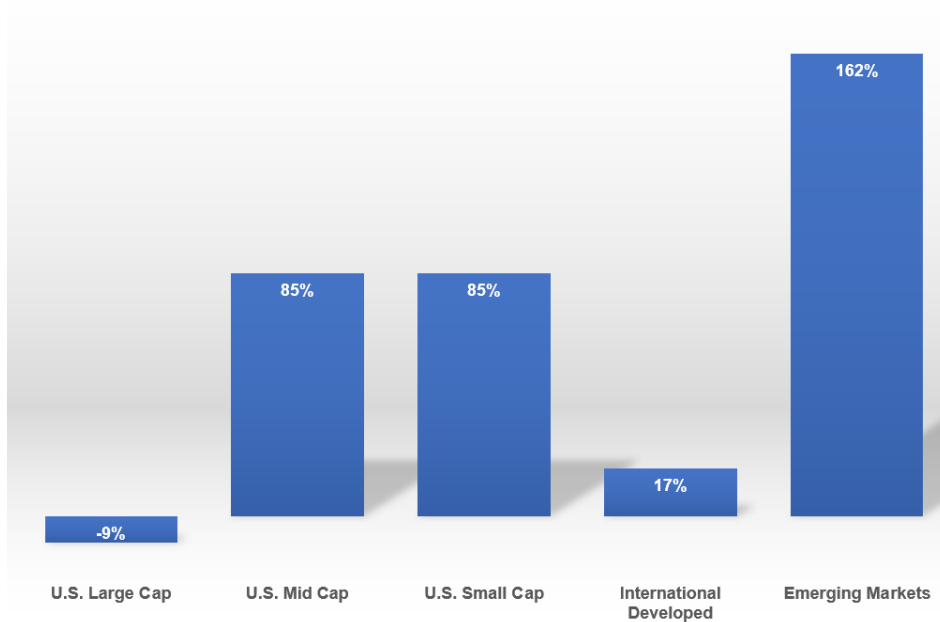
America dominates the stock market.

I do, however, still think there is room for diversification if you're going to invest your entire portfolio in stocks.

I know it seems like the S&P 500 always outperforms small caps, mid caps, international developed markets, and emerging markets, but you don't have to go back that far to find a time when the biggest companies in America underperformed.

Here are the total returns¹ in the first decade of the 21st century:

ASSET CLASS PERFORMANCE: 2000-2009

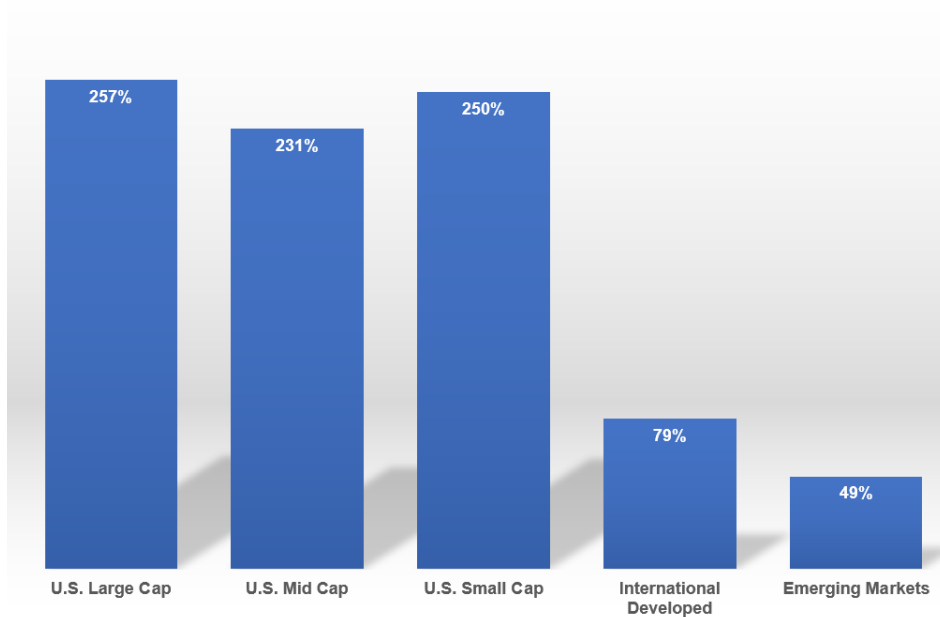


Past performance is not indicative of future results. Source: YCharts.

It was a lost decade for the S&P 500. Diversification saved the day if you spread your bets among these other areas of the market.

Now here's what happened in the ensuing decade:

ASSET CLASS PERFORMANCE: 2010-2019

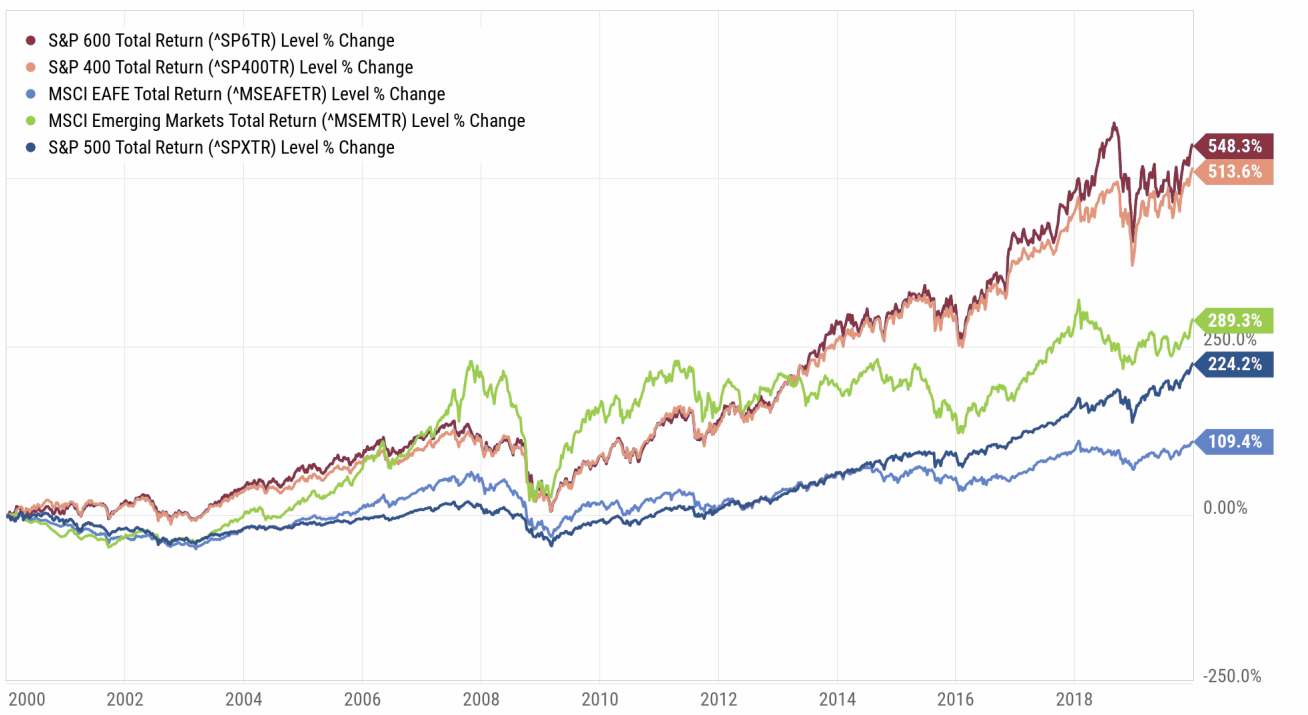


Past performance is not indicative of future results. Source: YCharts.

The S&P 500 came back with a vengeance, while emerging markets went from first place to last.

¹Here's what I used for each asset class here: S&P 500, S&P 600, S&P 400, MSCI EAFE, and MSCI EM.

Now here's what it looks like if we put it all together for both decades:



Past performance is not indicative of future results. As of 7/12/2023. Source: YCharts.

Surprisingly, the S&P 500 ranks second-to-last in terms of total performance from 2000-2019.

Some of this has to do with the start and end dates chosen here. The year 2000 was likely the worst entry point in modern U.S. stock market history.² I could change the start date and the S&P would look a lot better than this.

But, maybe that's my point. You just never know when certain markets, geographies, market caps, or risk factors are going to knock the cover off the ball or strike out.

That's why I think diversification is important, even if you plan on investing 100% of your money in the stock market.

²September 1929 wasn't great either.



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The **MSCI EAFE® Index** measures developed foreign market equity performance, excluding the U.S. and Canada. The **MSCI Emerging Markets Index** measures equity market performance in global emerging markets. The **S&P 500® Index** is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The **S&P SmallCap 600® Index** seeks to measure the small-cap segment of the U.S. equity market. The **S&P MidCap 400® Index** is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment. The indexes are calculated on a total return basis with dividends reinvested. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.

Diversification does not assure a profit or protect against losses.

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