The Endowment Model Portfolio Strategy

Endowment Performance


In contrast, a large percentage of traditional investment strategies using only U.S. Stocks and Bonds produced smaller gains.

Key Endowment Model Strategy Goal:
Increase portfolio performance while, lowering portfolio volatility

Key Portfolio Changes

**Diversify performance assets** (assets expected to provide strong, long-term returns) away from solely U.S. stocks into low (or lower) correlation performance-oriented assets such as:

1. Foreign developed market stocks
2. Emerging market stocks
3. Real assets such as real estate, commodities, and energy related holdings
4. Private equity (holdings in private companies that do not trade on the public markets)
5. Absolute return investments such as managed futures and hedge funds that seek to earn returns less correlated to the stock market
6. Other low correlation assets such as debt instruments with yields linked to interest rates.

**Minimize bond holdings** with low return expectations and unfavorable inflation exposure.

1. Reduce traditional bond holdings.
2. Diversify remaining holdings Internationally in an attempt to increase yield, raise total return, provide currency diversification, and lower inflation risk

**Incorporate assets with limited liquidity** that may provide higher performance and lower volatility for a given level of risk.

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2) U.S. stocks refer to the S&P500. All data used was supplied directly by Standard and Poor. Bonds returns are calculated from the Barclays Capital U.S. Aggregate Bond Index, and all bond data was supplied by Barclays Capital.
3) Correlation is a statistical measure of how two securities move in relation to each other.
Hypothetical Portfolio Designs

Traditional Investor Portfolio:
60% US Stock, 40% US Bond

Performance Assets Diversified, 40% Diversified Bonds Retained:
Seeks to Reduce Volatility and Improve Portfolio Performance

Portfolio More Similar To an Endowment:
Seeks to Improve Performance While Lowering Volatility

Potential Improvements: Including low (or lower) correlated performance assets can decrease portfolio volatility, improve performance potential and provide more inflation protection. The bond portfolio can be diversified lessening exposure to low U.S. rates.

Potential Risks: Alternative investments may be illiquid, are not suitable for all investors, and may require larger minimum investment. Investments in foreign markets entail special risks such as currency, political, economic, and market risks. All investments can create adverse tax consequences. All investments create the risk of loss.

Customizing: Your needs, resources, risk tolerance, and experience will differ from Endowments and Institutions. You must construct and manage your portfolio to serve your specific situation.

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