Fiduciary CM Portfolio Principles:

Why You Should Be Extra-Skeptical of Static Allocations Now

No one knows what comes next for markets. But we do know that valuations are very stretched and history has not been kind to what comes after. Investing in a static, off-the-shelf model portfolio, particularly now, holds a high degree of risk in this environment.

You Are Here..

Our investment process favors flexibility, led by objective indicators that reduce behavioral biases. But the vast majority of models used by advisors are based on static allocations across stocks and bonds, with perhaps a dash of commodities or private markets mixed in. You can't argue with their recent success: Over the past three years, the S&P is up over 70%.

But that has left the market at an extended valuation. We are no fan of valuation measures as a shorter term market guide—research shows liquidity is a much more powerful tool (which constitutes our core fundamental indicator). But over multiple year periods, history has undeniably shown that putting new money into extremely rich markets has proven unwise.

Right now, the market's cyclically adjusted PE ratio (the accepted norm for valuation measurement) is at an extreme.

Historical Context

Period	CAPE
Long-term average (since 1871)	~17
1929 peak	~32
2000 dot-com peak	~44
Global Financial Crisis low (2009)	~15
Current (June 2026)	~41

To buy and hold now, rather than using an objective indicator to guide your actions dynamically risks drawdowns at unanticipated times with a higher frequency than normal, or an extended period of mediocre returns.

An excellent paper by Gorman, Keel, and Randazzo titled “Navigating Lost Decades” points out that for 35% of the time since 1871, the market has been in a “lost decade” of mediocre returns. First, from the 1929 peak to 1954, then from 1966 to 1982, and more recently from the 2000 peak to 2013.

The most recent period left you with a 0.05% real return. So even if one assumes the dynamics of a Great Depression and a long period of high inflation in the late 1960s are structural possibilities economic policy has solved, you can still face years of zero returns.

Time horizons are different for every investor. But no investor can optimize their personal returns over their lifetime if they are investing during a decade or more of negligible returns for the broad market. And for many investors if that period occurs at a critical period in life for accumulating retirement assets, it can lead to substantially reduced outcomes.

The other issue is drawdown potential. Common sense suggests that this is higher when investing at elevated valuations. Every investor should hold somewhere in their head this table, that shows how long it takes to recover from a market drawdown.

Recovery Table

Drawdown	Gain Needed to Recover
-10%	+11.1%
-20%	+25.0%
-30%	+42.9%
-40%	+66.7%
-50%	+100.0%
-60%	+150.0%
-70%	+233.3%

Sharp drawdowns and a decade long stagnant market are two scary scenarios, and the current market buoyancy over the past two and a half years makes them seem like far away possibilities. But what would you do if you suspected one was upon us?

Of course, the only way to know for sure would be in hindsight. But under a static scenario, you would likely stay the course. There would be a powerful argument in your corner: over any 20-year period, history has shown you are virtually guaranteed to produce a positive return in US equities at the index level.

But even if that turns out to continue to be true, the odds of a multi-year period within that producing poor returns that reduce your outcome are much higher when investing at current valuations.

And that is a key reason we believe a flexible investing framework is particularly well suited for today's market conditions. Having a pre-decided, objectively determined approach will protect you should one of the two poor outcome cases appear, and even if they do not your odds of a significant if lesser drawdown are reduced meaningfully.

For more on our approach to portfolio management, see:

https://fiduciarycm.com/portfolio-principles/

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