Casey Mullooly: In episode 268, we talk about what is normal anyway?

Casey Mullooly: Welcome back to the Mullooly Asset Show. I'm your host, Casey Mullooly and he's got the jacket on this week. Thanks for tuning in. So a recent post from one of my favorite Twitter followers, Nick Maggiulli, over at Of Dollars And Data, we'll link to it in the show notes, of course, tried to answer the question of, are people taking more risks than ever before? And why are they doing that? So Nick referenced a graphic he found from Corey Hoffstein, which I think was actually from The Wall Street Journal, which broke down what investors needed to be allocated towards to achieve a 7.5% return. So in 1995, you could have been allocated 100% to bonds and returned 7.5%. Yeah, bonds, 100%, 7.5%.

Casey Mullooly: In 2000, the bond percentage went from 100% down to 52%. So to achieve a 7.5% return in 2000, you needed to be about 52% bonds, 48% risk assets, which are things like stocks, international stocks, real estate, alternative investments, things where you're actually taking risk. So 50-50 in 2000.

Casey Mullooly: Fast forward to 2015, just a couple of years ago, and the bond percentage to achieve a 7.5% return was down to 12%. So it was 12% bonds and 88%, pretty much 90%, risk assets. So things have changed a lot in just in that 20 year time period.

Casey Mullooly: So Nick also referenced the AAII Individual Investor Asset Allocation Survey. That was a mouthful. So it's a survey that breaks down what the average investor or what the individual investor is allocating towards stocks, bonds and cash. So this year in 2021, the average investor has allocated towards 61% stocks, 16% bonds and 23% cash. So it's about a 60-40 split.

Casey Mullooly: But if you look back to 2000 during the dot-com craziness that was going on, the average was more 70-30%. So today's 60-40 is on the high side, it is higher than normal, but it is not the highest that it's ever been.

Casey Mullooly: So in this interest rate environment, it makes sense that people are taking more risk than "normal." It's because they have to with bonds earning what they are. But Nick also raises the question that bonds returning what they are today is more normal than what they were returning in 1980 to the 2000 time period, when they were turning 7, 10, 12, 15%. That's what wasn't normal. That was the outlier in the time period. Interest rates have been moving slowly down over the last 100 years or so. And this is just the world that we live in nowadays.

Casey Mullooly: So look, when we're deciding where to allocate a client's portfolio toward, what percentage to be in stocks, bonds, and cash, we focus on things like time horizon, what are your expenses? What are your projected expenses in retirement? What's your lifestyle going to be like? What amount of risk are you currently taking? What risk are you comfortable taking? These are all things that we talk about and measure and try and get, and do get a really good grasp on before we make investing decisions on how much stocks needed to be allocated towards how much bonds and how much cash. We don't shoot for a certain percentage return or a certain number. But we let things like the client's goals and the client's needs and the client's wants drive the decision-making process. So over the long-term, while we're not shooting for a specific return, we expect that things will work out in the end. So that's the message for episode 268, know how much risk you need to take and how much risk you want to take to achieve your financial goals. Thanks as always for tuning in.