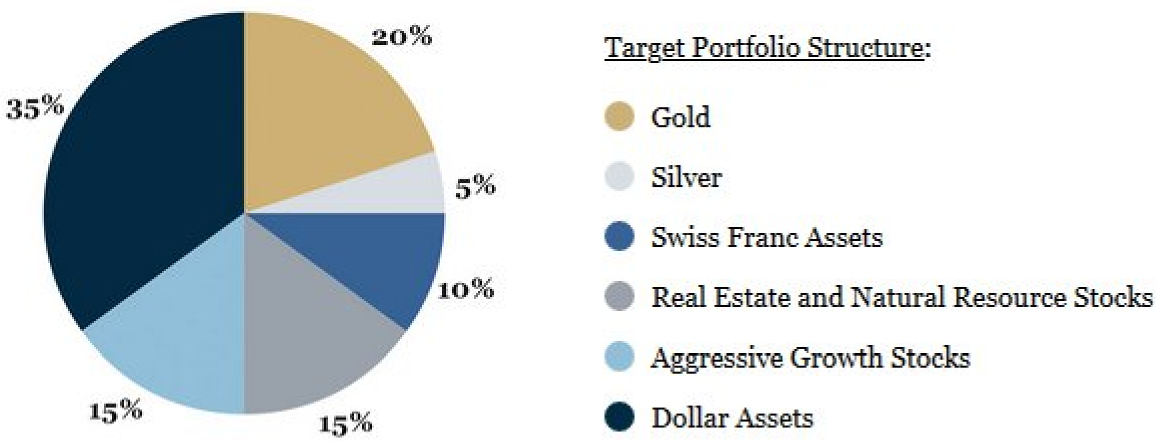
Permanent Portfolio Philosophy

In his book *Fail-Safe Investing* Harry Browne proposed the idea of a permanent portfolio for safety in any financial environment. The idea was that one part of the portfolio would always do well, and the various parts would hedge against such disasters as inflation, recession, deflation, and rising interest rates. The other portfolio would be adjusted yearly to maintain the original balance of:

- 25% US Stocks
- 25% long-term US Treasury bonds
- 25% cash
- 25% gold

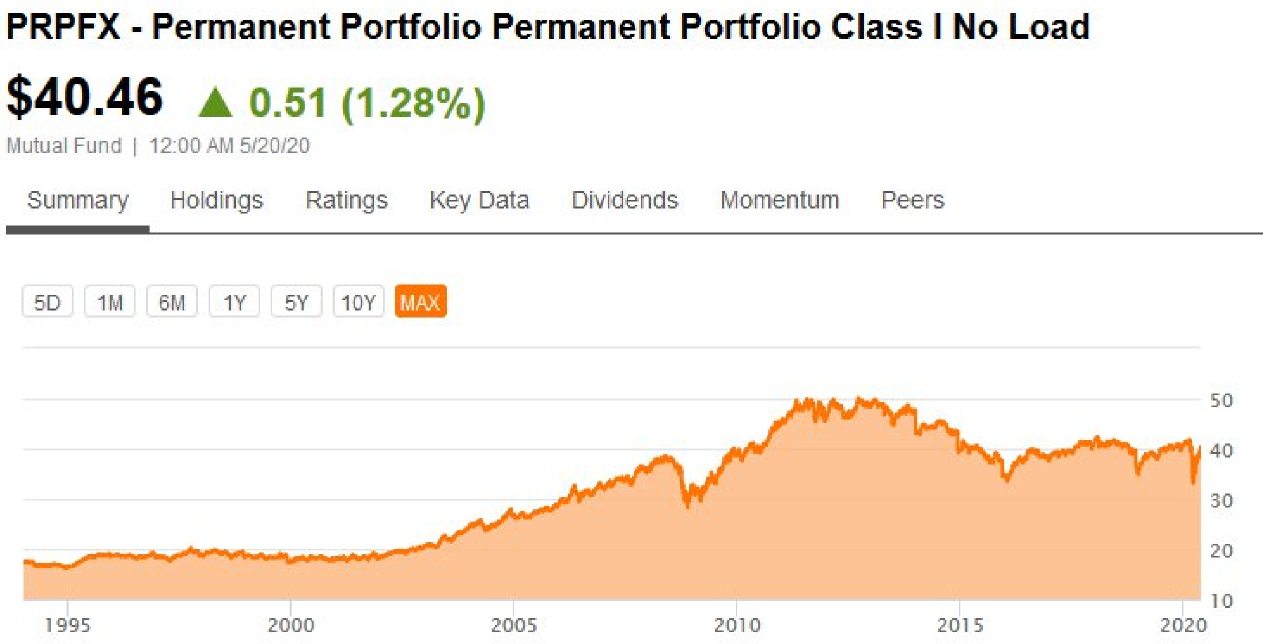
In an attempt to prove the value of this philosophy, the Permanent Portfolio Fund was created in 1982. The fund aims to "preserve capital and provide low risk growth." It utilizes six asset categories as shown:



The 0.84% expense ratio is not that high for a managed fund, but it is not really justified by the return:

	YTD	1 Year	5 Years	10 Years	15 Years	Inception
Class I	-12.49%	-5.29%	1.75%	3.11%	5.14%	5.64%

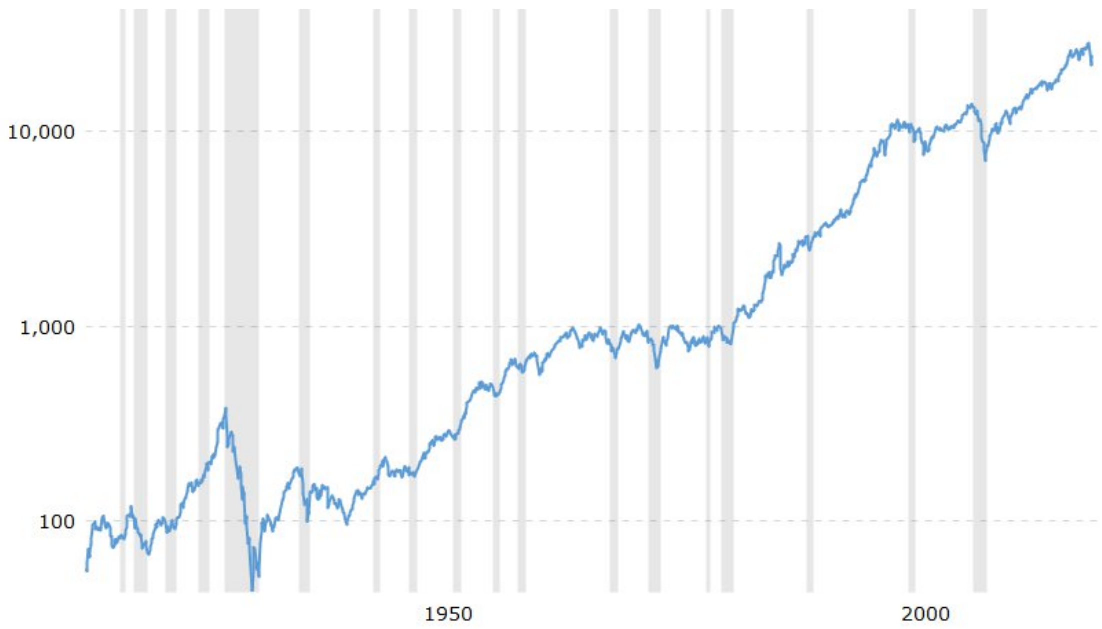
The fund was clobbered by the stock market in the 1990's, but only dropped 8% during the 2008 financial crisis. It dropped 12.5% during the Covid-19 crisis of 2020, but largely recovered in 3 months.



The curve for PRPFX does not fit my idea of the ideal permanent portfolio. You can read about other portfolios that try to acheive permanent status [here](#).

Some say a 2-3 low-cost exchange traded funds is all you need. [Here are 25 of them.](#)

What is an ideal investment? Some consider the stock market ideal over the long term, yielding 12.5% with dividends reinvested, since 1923. Since 1957, the annualized return is less than 8%. The latter figure includes the stagflation years from the1965 to 1981 when the Dow went from 960 to 875. It’s not as bad as it looks though, the yield was higher then, so with dividends reinvested, the annualized return was 4.3%. Of course inflation ate up all of these gains.

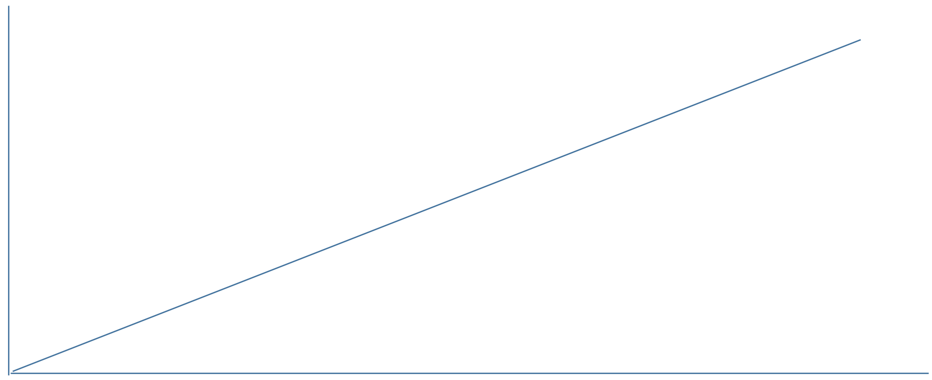


[**Dow Jones - DJIA - 100 Year Historical Chart**](#)

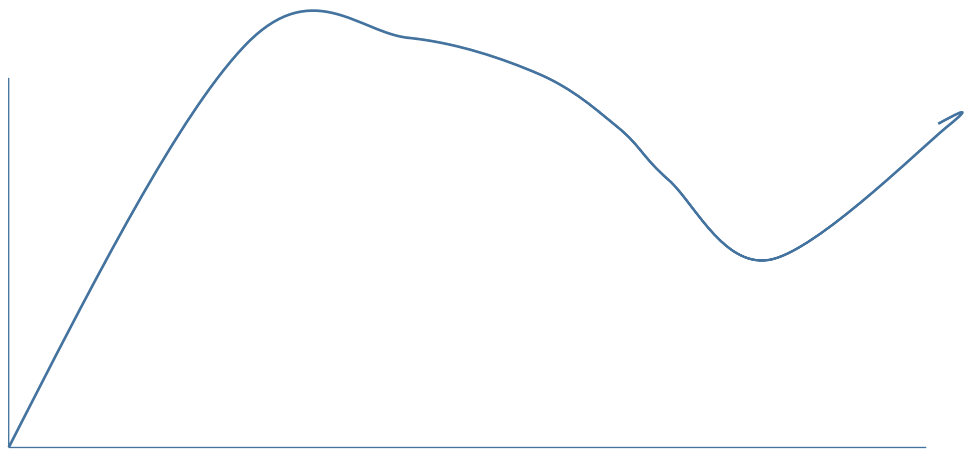
Individual investors never achieve the overall market returns. Even professional investors don't beat the market very often. The roller coaster ride can be hard to stomach, leading many investors to bail at exactly the wrong time, when the market goes down. The ideal investment must beat inflation, beat expenses, beat taxes, provide growth before retirement, provide income in retirement, and allow you to sleep at night. No one investment or group of investments is likely to do all that.

I like income investing (link to my article about income investing) so that I can be paid along the way. I don't trust the paper returns of a growth stock or fund to meet the ideal requirements because paper returns can vanish like in 1929 2001 2008 2018 2020 .

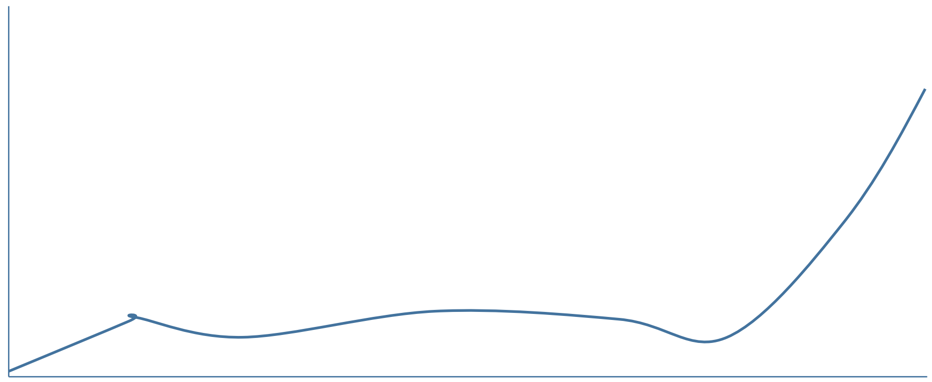
Here's my ideal investment curve for a stock that gradually gains over the years and pays a dividend. I like a nice 6% yield with some growth for an 8% yearly return without any stomach-churning 5-20% drops.



This sort of curve may end up the same place but is very disconcerting.



This sort of curve is harrowing during the first few years .



To achieve growth and income AND safety requires diversity. If calamity strikes sometimes everything drops that fear takes over . The big fear is that everything stay low I usually something recovers over the short term. Stocks or bonds or preferred's for utilities , something will recover. Took a long time for things to bounce back after 2008 'cause our financial system was in disarray. However the panic of 2018 resolved quickly. We don't know yet about the panic the code with epidemic of 2020 .

The permanent profile is made to protect against a calamity such as roaring inflation or a sustained drop in the stock market or TEOTWAWKI. I'm not sure it can protect against a sustained rise in interest rates: the 25% long term bonds would get slaughtered. The yield on 20 year treasury bonds in 1981 was 15.5%! The There cannot be much more upside in the long-term bond market.

The problem with the permanent portfolio approach according to hear your Brown is a 75% of the portfolio this time fields nothing or nearly nothing and so all the potential gains are driven by the 25% investment in the stock market. Stock market funds generally returned about 2% per year at present but when that investment only makes up 25% of the total the overall yield would be 5%.

A huge sum of money would be required to generate living expenses at this yield. Then very judicious sales would be required to generate income from capital gains.

Here is another idea, using 3 buckets: 1) a dividend growth bucket, 2) a 6% yield risk-adjusted bucket, and 3) an 8% high-yield bucket. It does require adjustment every month, so it might be getter suited to a tax-advantaged account where the record keeping would be less of an issue.

I have developed a permanent portfolio that is high-yield with moderate growth; please see my thoughts here (SPF Permanent Portfolio).

Simple Personal Finance, home of the *Dividend-Tracker*

http://simplepersonalfinance.info
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