150 Portfolios Better Than Yours

[Editor's Note 1/15/2018: The long-awaited White Coat Investor Online Course is live and is available for purchase here. The course is entitled: Fire Your Financial Advisor. No more wading through dozens of books at the library, scrolling through hundreds of blog posts on dozens of blogs, *or checking in daily with online forums trying to gain a financial education the way the hobbyists do. This course will take you from feeling anxious and having no plan to having a written financial plan you can follow the rest of your investing career as a professional and a retiree. This course is the material that should have been taught to you in college, medical school, or residency, but never was.]*

Designing the Perfect Portfolio

As investors move from their investment childhood through the teenage years, many of them seem to almost become fixated on designing the perfect portfolio. They've learned the importance of buy and hold, the importance of keeping costs low, and the importance of using passive investments over active ones. They learn about the efficient frontier and seek to get themselves onto it, not realizing it can only be defined in retrospect. They start learning about various portfolios, and their pluses and minuses, and seem to be eternally seeking a better one. Even some investment advisors fall into this trap, designing their own portfolios, borrowing someone else's, or even paying to use someone else's models. Occasionally, I even see investment advisors try to keep their model portfolios secret, as though theirs are somehow magically better than anyone else's.

The truth is that no one knows which portfolio is going to outperform in the future. You can change all the factors you want- more or less diversification, additional risks/factors, lower costs vs additional risk or diversification, more of this and less of that. Does it matter? Absolutely. Take a look at Madsinger's Monthly Report some time. But it doesn't matter that much. No diversified portfolio in that report has done better than 1-2% per year more than a similarly risky portfolio over the last 15 years. Now 1-2% does matter, especially over long periods of time, but keep in mind the edge that a very complex portfolio might provide over a very simple one can easily be eaten up by advisory fees, behavioral errors, and poor tax management.

Pick a Portfolio and Stick With It

I suggest you pick a portfolio you like and think you can stick with for a few decades, and then do so. Eventually, any given portfolio will have its day in the sun. Just don't continually change your portfolio in response to changes in the investment winds. This is the equivalent of driving while looking through the rearview mirror, or, as Dr. Bernstein likes to phrase it, skating to where the puck was.
Now don't get me wrong, I went through the process like everyone else. I designed my own portfolio (see Portfolio 150) to fit my own need, ability, and desire to take risk. I

added some asset classes and left out others because I thought doing so would give me a higher long-term, risk-adjusted return. But I'm not cocky enough to think I've got the best portfolio out there. In fact, I'm positive mine isn't the very best one. Neither I nor anyone else knows what the very best portfolio is. In that spirit, let's talk about some of the portfolios you can use (or modify for your own needs.)

Portfolio 1: The S&P 500 Portfolio

100% Vanguard S&P 500 Index Fund

Don't laugh. I know a very successful two-physician couple who invest in nothing but this, are 7 years out of residency, have a net worth in the $1-2 Million range. Their investment plan is working fine. Every investment dollar, whether in a retirement account or a taxable account, goes into this single fund. It is simple, very low cost, diversified among 500 different companies, and has a long track record of exceptional returns.

Portfolio 2: Total Stock Market Portfolio

100% Vanguard Total Stock Market Index Fund

Perhaps one step up on the S&P 500 portfolio, for about the same cost you get another 5000+ stocks in the portfolio.

Portfolio 3: Total World Stock Market Portfolio

100% Vanguard Total World Index Fund

This 100% stock portfolio has the advantage of not only holding all the US Stocks like the Total Stock Market Portfolio but also holding all of the stocks in pretty much all the other countries in the world that matter. It is a little more expensive (and in fact, it is actually cheaper to build this fund yourself from its components), but it still weighs in at less than 20 basis points if you buy the ETF.

Portfolios 4 and 5: Balanced Index Fund

100% Vanguard Balanced Index Fund

Prefer to diversify out of stocks? Actually, want some bonds in the portfolio? How about this one? For less than 10 basis points you get all the stocks in the US and all the bonds in the US in a 60/40 balance. Still just one fund. If you're in a high tax bracket, you may prefer the Tax-Managed Balanced Fund, a 48/52 blend of US Stocks and Municipal bonds, all for just 12 basis points.

Portfolios 6-9: Life Strategy Moderate Growth Portfolio

100% Vanguard Life Strategy Moderate Growth Fund

For just 16 basis points, you get all the US (32%) and international (18%) stocks and all the US (42%) and international (8%) bonds wrapped up in a handy, fixed asset allocation. Want to be a little more (or a little less) aggressive? Then check out the "aggressive growth" (80/20), "conservative growth" (41/59) or "income" (30/70)version with a slightly different allocation of the same asset classes.

Portfolios 10-21: Target Retirement 2025 Fund

100% Vanguard Target Retirement 2025 Fund

Don't like a static asset allocation? Don't want to have to make the decision of when to change from one Life Strategy Fund to the next? Consider a Target Retirement Fund where Vanguard makes that decision for you. For a cost of just 17 basis points, the 2025 Fund uses the same 4 funds that the Life Strategy funds use (in a 70/30 allocation) but gradually makes the asset allocation less aggressive as the years go by. The portfolios range from 90/10 (2040 and higher) to 30/70 (Income). 2015 and newer add a short-term TIPS fund to the mix.

Portfolios 22-25: The Two Fund Portfolio

50% Vanguard Total Stock Market Fund
50% Vanguard Total Bond Market Fund

Perhaps you like the concept of a balanced index fund but would like to shave off a few basis points, or just be in control of the stock to bond ratio. For 7.5 basis points (or lower if you hold more in the stock fund), you can build your own balanced index fund. Want all the stocks, not just US ones? For 15 basis points, you can substitute in Total World Index for Total Stock Market Index. For 20 basis points you could use Total World plus Intermediate term tax-exempt fund, or if you want to stay domestic in a taxable account, TSM plus the muni fund for about 12.5 basis points. Lots of combinations.

Portfolio 26: The Three Fund Portfolio

1/3 Vanguard Total Stock Market Fund
1/3 Vanguard Total International Stock Market Fund
1/3 Vanguard Total Bond Market Fund

A favorite among the Bogleheads, the Three Fund portfolio gives you Total World plus Total Bond for 0.04% less per year! Despite its popularity, you can see there is really nothing particularly special about this portfolio compared to the other 25 above it. It is broadly diversified and low-cost, although is heavily weighted in large cap stocks, just like the overall US market.

Portfolio 27-35: Three Fund Plus REITs

30% Vanguard Total Stock Market Fund
30% Vanguard Total International Stock Market Fund
10% Vanguard REIT Index Fund
30% Vanguard Total Bond Market Fund

Another popular portfolio for those who want "just a little tilt." An investor convinced of the benefit of additional diversification (or less diversification, depending on how you look at it) can add a fund to the ever-popular Three Fund Portfolio. Some add the Vanguard REIT index fund for their intermittently low correlation with the overall stock market. Others add Vanguard Small Value Index Fund to try to capture the benefits of the Fama/French Small and Value factors. Still others add a TIPS fund, an international bond fund, or a high-yield fund since these bonds aren't included in the Total Bond Market Fund. Other options include a microcap fund, a precious metal equities fund, a precious metals fund, or even a commodities futures fund. The possibilities are endless, especially once you start considering adding 2, 3, or even more of these asset classes to the portfolio. What will do best in the future? Nobody knows, we can only tell you what did well in the past.

Portfolio 36-37: Four Corners Portfolio

25% Vanguard Growth Index Fund
25% Vanguard Value Index Fund
25% Vanguard Small Growth Index Fund
25% Vanguard Small Value Index Fund

One of the first of the "slice and dice" type portfolios, this portfolio tried to capture some benefit from the fact that sometimes growth stocks outperform value stocks, and vice versa. Its detractors argued that you were just recreating TSM at twice the cost (10 basis points versus 5). Another variation is to use Total Stock Market instead of Growth Index and Small Cap Index Fund instead of Small Growth Index. This allowed you to "tilt" to the Fama-French factors, while keeping costs down a bit (7.5 basis points). Obviously, you could mix this in with some international stock funds and bond funds until you get to something you like.

Portfolio 38: The Coffee House Portfolio

10% Vanguard 500 Index
10% Vanguard Value Index
10% Vanguard Small Cap Index
10% Vanguard Small Cap Value Index

10% Vanguard REIT Index
10% Vanguard Total International Index
40% Vanguard Total Bond Market Index

Popularized by investment author and financial advisor Bill Schultheis in The Coffeehouse Investor, this version of slice and dice is heavy on the REITs, is light on international stocks, and lacks diversity on the fixed income side. But it does weigh in at under 10 basis points. You want someone to tell you what to do? Bill will do it. Follow his instructions and you'll be fine.

Portfolio 39-48: The Couch Potato Portfolio

50% Vanguard Total Stock Market Index Fund
50% Vanguard Inflation-Protected Securities Fund (TIPS)

Guess who else will tell you what do? Scott Burns will. He offers 9 portfolios, ranging from 2 funds to 10 funds. You just have to choose how much complexity you're willing to deal with for some additional diversification. If there are 5 funds, each fund makes up 1/5 of the portfolio and so forth. He likes TIPS, international bonds, and energy stocks.

Portfolio 49-52: The Ultimate Buy And Hold Portfolio

6% Vanguard 500 Index Fund
6% Vanguard Value Index Fund
6% Vanguard Small Value Index Fund
6% Vanguard REIT Index Fund
6% Total International Stock Market Index Fund
6% Vanguard International Value Fund
6% Vanguard International Small Cap Index Fund
6% An International Small Cap Value Fund
6% Bridgeway Ultra-Small Market Fund
6% Vanguard Emerging Markets Index Fund
40% Vanguard Short (or intermediate) Term Bond Index Fund

Paul Merriman will also tell you what to do. 10 equity asset classes and 1 fixed income asset class. Will it work? Sure. Will it be a pain to rebalance and allocate across all your accounts? Absolutely. Will it beat some of the simpler options above over your investment horizon? No one knows. In case you don't like the "Ultimate" portfolio, Paul has three others that are equally complicated, ranging from 100% stocks in 9 assets classes to 40% stock in 12 asset classes.

Portfolio 53: The Talmud Portfolio

1/3 Vanguard Total Stock Market Index Fund
1/3 Vanguard REIT Index Fund
1/3 Vanguard Total Bond Market Index Fund

Apparently, the Talmud, a central text of Rabbinic Judaism, had some portfolio advice, "Let every man divide his money into three parts, and invest a third in land, a third in business and a third let him keep by him in reserve." This is one author's low-cost vision of that ancient portfolio. A little REIT-heavy for my taste.

Portfolio 54: The Permanent Portfolio

25% Vanguard Total Stock Market Index Fund
25% Vanguard Long-term Treasury Fund
25% Gold ETF (GLD) or, better yet, gold bullion
25% Vanguard Prime Money Market Fund

Here's another popular portfolio, this one from Harry Browne. He felt you wanted a portfolio that would do well in prosperity (stocks), deflation (long treasuries), inflation (gold), and "tight money or recession" (cash). There are lots of variations. There is even a one-stop shop mutual fund for 69 basis points that's been around since 1982 with 15-year average returns of a little over 8%. Not only did it lose money in 2008, it managed to do so in 2013 as well. It hasn't been as popular lately for some reason.

12% US Large
12% US Value
12% US Targeted Value Stocks
6% International Value Stocks
6% Global REITs
3% International Small Value
3% International Small Stocks
1.8% Emerging Market Stocks
1.8% Emerging Markets Value Stocks
2.4% Emerging Market Small Stocks

10% One Year Government Fixed Income
10% Short Term Government Fixed Income
10% Two Year Global Fixed Income
10% Five Year Global Fixed Income

FPL, one of the sponsors of this blog, has a whole bunch of model portfolios, made up mostly of DFA funds. This one is 60% stock, thus the name. There are 9 more ranging from 10% stocks to 100% stock. There are also other folios including 3 fixed income ones (made up from funds of DFA, PIMCO, and various ETFs) and 3 global equity portfolios (made up from funds of DFA, Wisdom Tree, and Vanguard). Many other DFA-authorized asset management firms have similar portfolios, including Larson Financial, which focuses on doctors. I've seen their portfolios, and they're fine, but they also consider them proprietary, so I can't share them here.

Portfolios 71-94: The Sensible IRA Portfolio # 4

33% US Stocks
15% International Stocks
6% Emerging Markets Stocks
6% REITs
40% Fixed Income

Darrell Armuth at Sensible Portfolios, another one of my advertisers, runs a financial advisory firm that uses DFA funds. He offers 6 portfolios suitable for IRAs, this is one of them. He also offers 6 more suitable for a taxable account, 6 environmentally friendly portfolios, and 6 "express portfolios" designed for smaller accounts for just $500 a year.

Portfolios 95-117: Sheltered Sam 60/40

Portfolio

12% Vanguard 500 Index Fund
15% Vanguard Value Index Fund
3% Vanguard Small Cap Index Fund
9% Vanguard Small Cap Value Index Fund
6% Vanguard REIT Index Fund
1.8% Vanguard Precious Metals Fund
3% Vanguard European Stock Index Fund
3% Vanguard Pacific Stock Index Fund
3% Vanguard Emerging Markets Index Fund
4.2% Vanguard International Value Fund
24% Vanguard Short-term Corporate Bond Fund
16% TIPS (he recommends you buy the 2032 ones yielding 3.375% real, good luck with that)

William Bernstein, MD, in his classic The Four Pillars of Investing, had four investors, Sheltered Sam, whose assets were all in IRAs and 401Ks, Taxable Ted, whose assets were not, In-Between Ida who was partially sheltered, and Young Yvonne who didn't have much at all. He listed out 11 portfolios for Ted and 11 for Sam, ranging from 0% stocks to 100% stock. He listed one more for Ida, and then showed how Yvonne could gradually grow into Sam's portfolio. I've just listed one of them. If you want to see the other 22, buy the book or check it out at the library.

Portfolio 118: The Aronson Family Taxable Portfolio

5% Vanguard Total Stock Market Index Fund
15% Vanguard 500 Index Fund
10% Vanguard Extended Market Index Fund
5% Vanguard Small Cap Growth Index Fund
5% Vanguard Small Cap Value Index Fund
5% Vanguard European Stock Index Fund
15% Vanguard Pacific Stock Index Fund
10% Vanguard Emerging Markets Index Fund
15% Vanguard Inflation-Protected Securities Fund (TIPS)
10% Vanguard Long-Term Treasury Fund
5% Vanguard High Yield Bond Fund

This is apparently how Ted Aronson (who manages $25 Billion) invests his family's taxable money. I'm not sure I understand the logic behind some of its components. That said, even it is held for a long period of time, I'm sure it will work just fine. It has 10-year returns of around 7.5%, which is slightly better than Balanced Index fund (see portfolio 4.)

Portfolio 119: The Warren Buffett Portfolio

100% Berkshire Hathaway Stock

Warren Buffett is admired by all as a great investor. You can have him manage your money if you'd like, and all you have to do is buy a single stock. 15-year returns are about 6.6% per year according to Morningstar. It's a simple solution, and you get a free ticket to the coveted annual meeting.

Portfolio 120: The Unconventional Success Portfolio

30% Vanguard Total Stock Market Index Fund
20% Vanguard REIT Index Fund
15% Vanguard Developed Markets Index Fund
5% Vanguard Emerging Markets Index Fund
15% Vanguard Intermediate Treasury Bond Fund
15% Vanguard Inflation-Protected Securities Fund (TIPS)

This is an example of an implementation of the portfolio put forth by David Swensen, the Yale investment guru, in his classic Unconventional Success. It's fine, like the other 119 portfolios before it. It's main criticism is that it is awfully REIT heavy.

Portfolio 123-124: The Wellesley Portfolio

100% Vanguard Wellesley Income Fund

This actively-managed Vanguard fund has been around since 1970, and despite only being 35% stock, has averaged over 10% a year, while charging just 18 basis points. It has done better than Warren Buffett the last 10 years, averaging 7.43% per year. It probably won't do as well in the future given how bond heavy it is. The main knock against it, aside from being actively managed, is that it isn't particularly diversified. It holds just 62 stocks, mostly large value stocks, and only 715 bonds. Don't expect 10%, or even 7%, a year out of this bond heavy fund going forward at today's low interest rates. That said, it's hard to argue with success. Other actively managed funds that could be considered a reasonable portfolio all by themselves include the Wellington Fund (established 1929, 63/37, 10-year returns of 8.46%, ER 0.17%) and Dodge and Cox Balanced Fund (established 1931, 68/32, 10-year returns of 7.22%, ER 0.53%). There are probably more. I'm not a big fan of active management, but it's hard to nitpick a fund that survived The Great Depression. Clearly, they're doing something right.

Portfolio 125-133: The Advanced Second Grader Aggressive Portfolio

54% Vanguard Total Stock Market Index Fund
27% Vanguard Total International Stock Index Fund
6% Vanguard REIT Index Fund
3% Precious Metals
10% Total Bond Market Index Fund

Allan Roth, in his excellent [How A Second Grader Beats Wall Street](), lists a conservative, a moderate, and an aggressive allocation for a second grader portfolio (3 Funds), an advanced Second Grader Portfolio (4-5 funds), and an alternative advanced Second Grader Portfolio (uses CDs instead of the Total Bond Market Fund). That's 9 more portfolios you could use without having to come up with your own!

Portfolios 134-137: The Dan Wiener Income Portfolio

Dan Wiener sells a newsletter to Vanguard investors. For just [$100 a year]() he'll reveal his super secret portfolios composed of various Vanguard funds. I can’t tell you what the portfolios currently hold (there are quite a few actively-managed funds and the allocations change from time to time), but I can tell you the performance hasn’t been terrible. The Growth version has returns of 9.57% since 1999, almost 4% a year better than the 3 fund portfolio and about 2% better than a typical slice and dice portfolio like the Sheltered Sam portfolio, although you do expect higher returns due to a significantly higher stock allocation. The less-aggressive “Income” version has returns of 5.52% a year. There is also a “Conservative Growth” and an “Index Fund Growth” portfolio whose returns are similar to slice and dice type portfolios. While I’m certain there is a survivor bias effect here, it’s still a pretty decent long-term record of actively-managed mutual fund picking. It helps that he mostly limits himself to low-cost Vanguard funds, of course.

Portfolio 138: The Larry Portfolio

32% DFA Small Value Fund
68% DFA One Year Treasury Fund

Larry Swedroe is smarter than me I’m sure. He is a huge fan of taking your risk on the equity side. He is a true believer in the small and value factors of Fama and French, and carries the idea behind a slice and dice portfolio to the extreme. He holds no fear of tracking error or the lack of traditional diversification, the primary downsides of investing like this. It is more important to him to diversify among "factors" like small, value, and momentum. It's not my cup of tea, but at least he puts his money where his mouth is. [Update: I'm told that Larry actually splits his equities between US Small Value, Developed Markets Small Value, and Emerging Markets Value, but you get the point- a very heavy small value tilt.]

Portfolios 139-146: The Rick Ferri Multi-Asset Class Pre-Retiree Portfolio

23% Vanguard Total Stock Market Index Fund
5% IShares S&P 600 Barra Value (IJS)
2% Bridgeway Ultra Small Company Market (BRSIX)
5% Vanguard REIT Index Fund
3% Vanguard Pacific Stock Index Fund
3% Vanguard European Stock Index Fund
2% Vanguard International Explorer Fund (he'd probably use the Vanguard International Small Index Fund now)
2% DFA Emerging Markets Fund
10% IShares Lehman Aggregate Bond Fund (AGG)
13% Vanguard Investment Grade Short Term Bond Fund
10% Vanguard High Yield Corporate Bond Fund
10% Vanguard Inflation Protected Securities Fund (TIPS)
5% Payden Emerging Markets Bond Fund (PYEMX)
2% Vanguard Prime Money Market Fund

In another classic book, All About Asset Allocation, Rick Ferri suggests a Basic and a Multi-Asset Class portfolio for early savers, mid-life accumulators, pre-retirees/active retirees, and mature retirees, for a total of 8 portfolios. Rick isn't afraid to look for the "best of class" fund for any given asset class. Lots of great portfolio ideas here.

Portfolio 147: Frank Armstrong's Ideal

Index Portfolio

7% Vanguard Total Stock Market Index Fund
9% Vanguard Value Index Fund
6% Vanguard Small Cap Index Fund
9% Vanguard Small Value Index Fund
31% Vanguard Total International Stock Market Index Fund
8% Vanguard REIT Index Fund
30% Vanguard Short Term Bond Index Fund

You can read more about this one in Armstrong's The Informed Investor. A nice heavy small/value tilt, but only domestically.

Portfolio 148: The 7/12 Portfolio

1/12 Vanguard 500 Index Fund
1/12 Vanguard Mid-Cap Index Fund
1/12 Vanguard Small Cap Index Fund
1/12 Vanguard Developed Markets Index Fund
1/12 Vanguard Emerging Markets Index Fund
1/12 Vanguard REIT Index Fund
1/12 Natural Resources
1/12 Commodities
1/12 Vanguard Total Bond Market Index Fund
1/12Vanguard Inflation Protected Securities Fund (TIPS)
1/12 Vanguard International Bond Index Fund
1/12 Vanguard Prime Money Market Fund

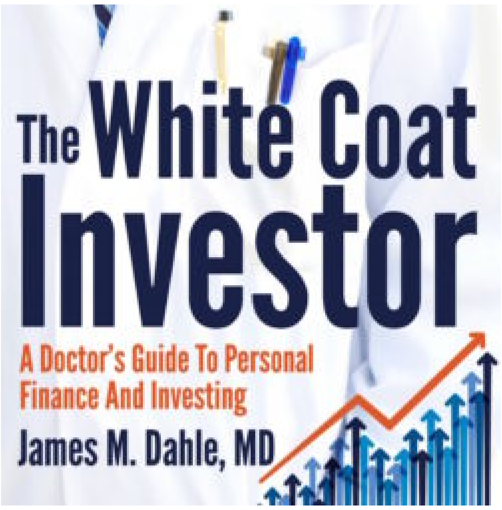
7 major asset classes, 12 funds, 8.33% a piece. Clever, huh. Craig Israelsen, a professor at prestigious Brigham Young University, advocates for this approach in his book 7 Twelve. He wants you to send him $75 to tell you how to use Vanguard Funds (or those of any other company) to implement the portfolio. Send me $50 and I'll tell you how to do it. If you've read this far, you know more about portfolio design than 95% of "financial advisors" out there.

Portfolio 149: My Parent's Portfolio

30% Vanguard Total Stock Market Fund
10% Vanguard Total International Stock Market Fund
5% Vanguard Small Value Index Fund
5% Vanguard REIT Index Fund
20% Vanguard Intermediate Term Bond Index Fund
20% Vanguard Inflation Protected Securities Fund
5% Vanguard Short Term Corporate Index Fund
5% Vanguard Prime Money Market Fund

I help my parents manage their nest egg. I'm twice as smart and 2.5% per year cheaper than the last guy. This 50/50 portfolio is a good balance between keeping it simple and understandable, but still getting the benefit of a multi-asset class portfolio. It lost 18% in 2008, and more than gained it back in 2009.

Portfolio 150: The White Coat Investor Portfolio



17.5% Vanguard Total Stock Market Index Fund
10% TSP S Fund
5% Vanguard Value Index Fund
5% Vanguard Small Value Index Fund
7.5% Vanguard REIT Index Fund

5% Bridgeway Ultra Small Company Market Fund (BRSIX)
15% Vanguard Total International Stock Market Fund/TSP I Fund
5% Vanguard Emerging Markets Index Fund
5% Vanguard International Small Index Fund
10% Schwab TIPS ETF
10% TSP G Fund
5% Peer 2 Peer Lending Securities (mostly Lending Club)

I'm more than willing to admit that it is unlikely that this portfolio will be the best of the 150 portfolios listed here over my investment horizon. However, since my crystal ball is cloudy, and since I'm convinced that sticking with any good portfolio matters far more than which good portfolio you pick, I'm going to stick with it (and have with minimal changes in the last decade, leading me to an annualized after-tax, after-expense return of around 9.5% [as of 1/11/2013]). A good portfolio is broadly diversified, low-cost, mostly or completely passively managed, regularly rebalanced, and consistent with its owner's need, ability, and desire to take risk. Every portfolio in this post meets those qualifications. Pick one you like, or design your own. Just don't go looking for the best one. As Prussian General Karl Von Clausewitz said, "The enemy of a good plan is the dream of a perfect plan."

What do you think about all these portfolios? Do you use one of these, or have you designed your own? Comment below!