Your 60/40 Is Really 80/20

Gaurav Gupta · Research note · October 2026 · github.com/guptagaurav-info/risk-budgeting-multi-asset · Data: SPY, TLT, GLD, DBC daily with dividends and 3-month T-bills, June 2006 – October 2026

81%
of a 60/40 portfolio's risk came from equities, on average

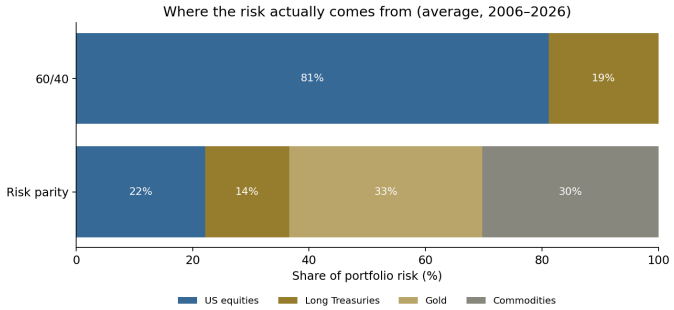
-23% vs -8%
2022 loss: 60/40 vs risk parity at 10% volatility

0.71 vs 0.60
Full-period Sharpe: vol-targeted 60/40 vs vol-targeted risk parity

-27%
Levered risk parity's worst drawdown, four weeks of March 2020

Portfolio	CAGR	Vol	Sharpe	Max DD	2008	2022	Sharpe 06–15 / 16–26
60/40	8.4%	11.1%	0.63	-31%	-13.4%	-23.3%	0.68 / 0.59
60/40 at 10% vol	9.5%	11.3%	0.71	-24%	-14.4%	-18.0%	0.91 / 0.55
Equal weight	7.3%	10.1%	0.58	-28%	-9.6%	-8.7%	0.36 / 0.80
Risk parity (unlevered)	7.5%	9.2%	0.65	-21%	+0.5%	-10.2%	0.53 / 0.76
Risk parity at 10% vol	8.1%	11.2%	0.60	-27%	-6.0%	-7.6%	0.43 / 0.75

After 5 bp per unit of turnover and T-bill + 0.50% financing. Stock-bond 1-year correlation: -0.41 average 2006–2020, +0.09 average 2022–2026. Cost stress (20 bp, T-bill + 1.50%): levered risk parity CAGR 7.5%, Sharpe 0.55.



Average share of portfolio variance by asset.

SOURCES

- SPY, TLT, GLD, DBC prices and dividends (Yahoo Finance); U.S. Treasury daily par yields; mirror huggingface.co/datasets/defeatbeta/yahoo-finance-data (ODC-BY)
- Files sha256-pinned at download (2026-10-20)

METHOD

- Risk parity: weight ∝ 1/σ (Qian 2005; Maillard, Roncalli & Teïletche 2010)
- Volatility targeting to 10%, leverage ≤ 2x (Moreira & Muir 2017; Asness, Frazzini & Pedersen 2012)
- 63-day trailing σ and covariance; month-end rebalance; trade next day; weights drift

KEY CALCULATIONS

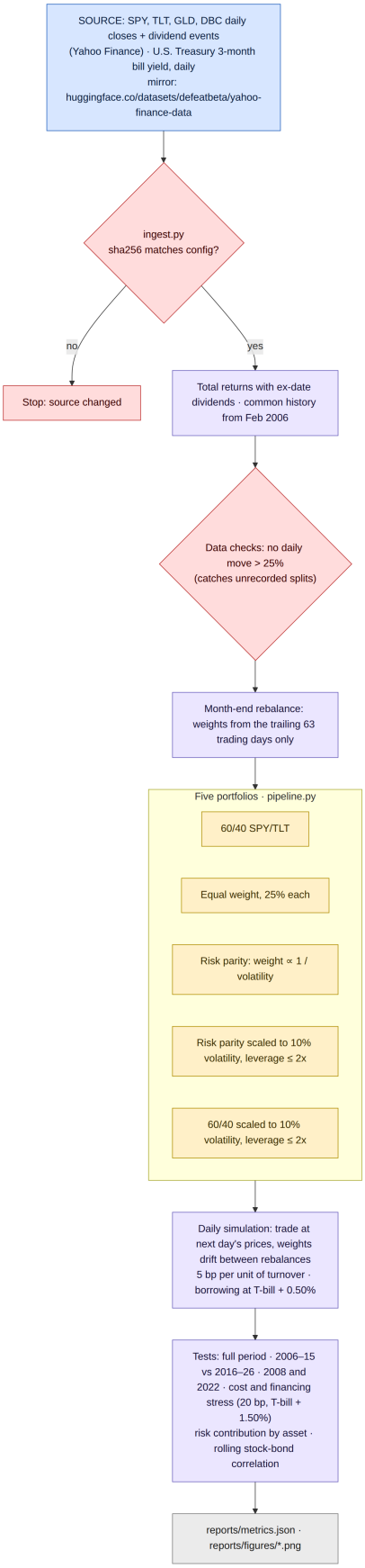
- Expected vol = $\sqrt{(w^T \Sigma w)}$; scale = 10% / expected vol
- Risk contribution_i = $w_i (\Sigma w)_i / w^T \Sigma w$
- Business: $1bn × 2022 return; full-period CAGR gap

RECOMMENDATIONS

- Report and limit risk by contribution, not dollar weight.
- Stress every strategic allocation against a positive stock-bond correlation (2022-style).
- Hold real-asset risk where inflation is the binding threat, with the disinflation drag agreed in advance.
- Cap volatility-scaled leverage and add an intra-month volatility trigger; stress a sudden shock from calm.
- Require sub-period results with every allocation proposal.

Independent research on public data, not investment advice. Dollar figures illustrative. Produced with AI assistance and reviewed by the author; sources as cited.

Pipeline: sources, checks, sizing, simulation and tests



Monthly sizing decision

