06.03.2025

Economico Flash ⚡#20

Investment strategy: Equity and real estate quota

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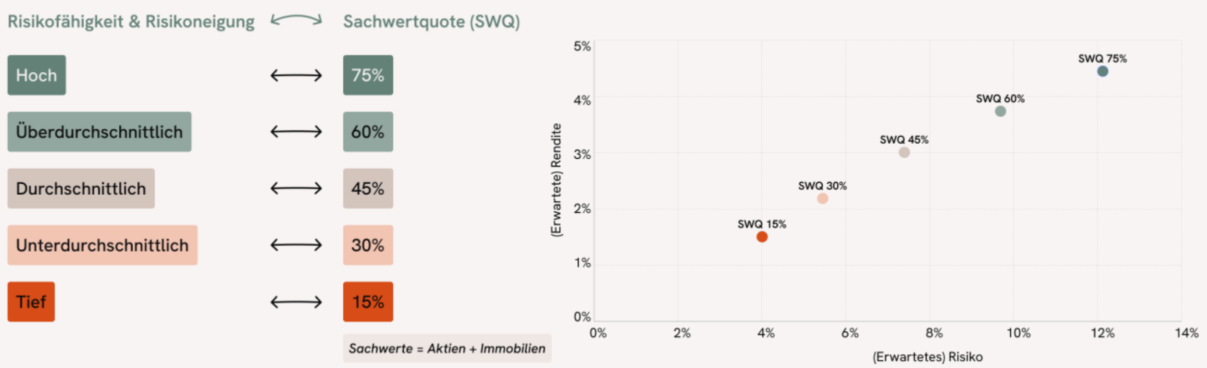
Chart of the week: Investor-specific risk profile as the basis for the tangible asset ratio



Source: Return expectations according to Augur consensus forecasts, risk expectations according to historical return behavior (20yr)

In the last Flash 19, we explained why we do not use portfolio optimization for portfolio composition. Well, without an optimizer, you are left pretty naked when it comes to the question of portfolio composition and all that remains is sound economic common sense.

As a construction kit for our Economico standard portfolios, we limit ourselves to the asset classes cash CHF, bonds CHF, Swiss equities, global equities and Swiss real estate. Not sexy, but effective. In the coming Flashes, we will also explain why other asset classes are missing.

First of all, when it comes to determining the ratio of real assets to nominal value: setting this ratio is THE pivotal decision in portfolio construction. No other decision has a greater influence on the resulting return and risk profile of the overall portfolio. The real asset ratio is the sum of the equity and real estate categories. The level of the real asset ratio directly controls the level of risk in a portfolio. This level of risk must be tailored to the investor's individual risk profile: an investor with a high risk capacity and high loss tolerance can also “afford” a high tangible asset ratio. And vice versa.

The chart of the week illustrates how we assign the level of the tangible asset ratio to the individual risk profile of the investor for the Economico standard portfolios and how the return and risk potential of the portfolio increases as the tangible asset ratio rises.

We also include the determination of the real estate quota within the tangible asset quota. This decision can be approached pragmatically: Every person who can call themselves a property owner already has a significant concentration of their assets in this asset class. The principle of diversification suggests that homeowners should therefore refrain from adding real estate securities to their portfolio and implement the real asset quota exclusively with equities. We have therefore added an option to the Economico Marketplace this week that allows the real estate asset class to be excluded or “clicked away” from standard portfolios.

Takeaways

- The higher the risk capacity & risk appetite, the higher the (suitable) tangible asset ratio
- Every homeowner already has enough real estate in their portfolio.