



A Tale of Two Investment Portfolios

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It was the best of times for some investments, it was the worst of times for others, cash was trash, and Bitcoin was booming. When we look around at the economy, it may seem like fitting material for a dramatic Dickens [novel](#) (we can only imagine what Charles Dickens would have written about crypto). Yet, as an investor, now is the time to take a holistic, level-headed look at your portfolio.

Ray Dalio is Right on the Money

The words “holistic” and “level-headed” can be replaced with one word: *diversification*. It’s one of our core tenets when it comes to investing at Makara. And when the leader of the world’s largest hedge fund agrees with you about investing, it’s usually a good sign. Well, that’s what recently happened when Ray Dalio—legendary investor and founder of Bridgewater Associates—spoke with [Yahoo Finance](#) about the importance of diversification and how he incorporates crypto into his strategy. For the past few months at Makara, in our newsletters and on our [blog](#), we’ve been preaching the benefits of including crypto in a well-diversified portfolio. In Dalio’s comments, he stressed the need for diversification in a modern investment strategy.

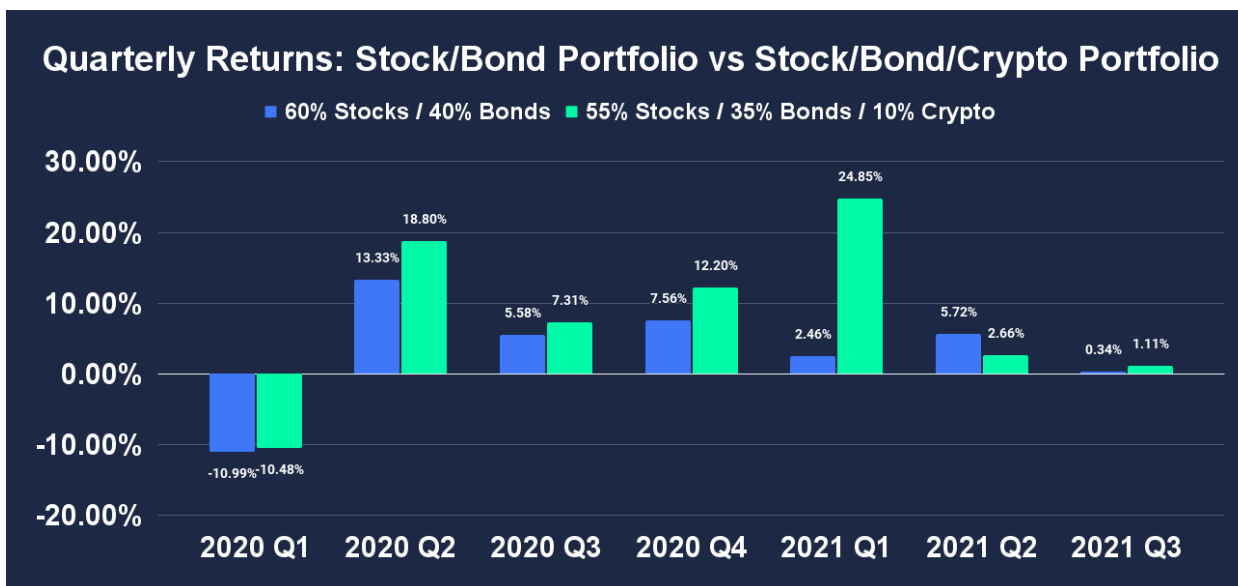
“I view [crypto] as an alternative money in an environment where the value of cash money is depreciating in real terms. And I think it’s very impressive that for the last 10, 11 years, that programming has still held up,” he told Yahoo Finance’s editor-in-chief, Andy Serwer in a video interview. Dalio went on to say, “I’m very big on diversification. And [crypto is] a relatively small part of the portfolio.”

Dalio now publicly shares that he owns Bitcoin and Ether, using it to round out a portfolio of investments that includes various asset classes. He added, “I've been quoted [saying] 'cash is trash,’” and went on to explain that cash is the worst investment in his view because it is losing buying power.

With or Without Crypto

Crypto has become mainstream this year, with everyone from Ray Dalio to the rock band U2's manager getting [involved](#) in various ways. And let's not forget the estimated 40 million or more Americans who have ever traded crypto according to [Pew Research Center](#). That number is growing each day.

For the average investor, what does diversification look like with crypto? We took the common 60/40 portfolio—60% in the S&P 500 and 40% in U.S. bonds—as a base example to display how crypto has potential to improve a portfolio when a small allocation is added. The graph below shows the tale of two hypothetical portfolios, without crypto and with crypto, from Q1 2020 to Q3 2021. For the portfolio allocation, we used the [SPY ETF](#) to represent exposure to the S&P 500 and the [AGG ETF](#) to represent wide exposure to the U.S. investment-grade bond market. The Makara [Blue Chip basket](#) is used to model crypto returns as it is a wide sample of crypto assets available to the average investor, including Bitcoin and Ethereum among others.



[Click for Larger Graph Image:](#) See important disclosures below

We see over the past seven quarters, dating back to the beginning of 2020, that a 10% allocation to crypto has increased returns consistently with only one quarter having lower returns than the portfolio without crypto. If we look at returns cumulatively from January 1, 2020 to September 30, 2021, we see that the stock and bond portfolio returned 24.50% while the portfolio with crypto added returned 65.90%. It is important to remember that past performance is not a guarantee of future results and that crypto has been generally more volatile than the stock and bond market. However, we can learn by analyzing different past scenarios that small amounts of diversification may have a positive impact on portfolio performance. We encourage you to review different investment asset classes to ensure your portfolio is well-rounded.

Start Small

If you haven't invested in crypto yet or have only invested a little in Bitcoin, we recommend starting small and slow. Invest only what you are comfortable putting into crypto and consider it as a small part of your larger investment strategy. We also recommend [dollar cost averaging](#) to reduce risk and build up your investment over time. At Makara, we believe diversification is your friend during good and bad times. And if you haven't started diversifying, now is the best time.

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Ray Dalio, mentioned in this article, is not a Makara client or paid endorser of Makara.

The portfolio comparisons made above rely on several key assumptions and choices in presenting the data. The Makara Blue Chip Basket has been selected as a cryptocurrency option to illustrate the impact that a mainstream cryptocurrency allocation could have had on a diversified portfolio during the time period displayed. The pro forma portfolios have been rebalanced at the end of each quarter to return to the intended allocations. Data provided begins in January 2020 because that is the inception date for the Blue Chip Basket’s performance record. For more information about how the Blue Chip Basket’s performance is calculated, please visit our [Help Center](#). During the time period selected, both the stock market and the cryptocurrency market generally had positive performance, which is not necessarily indicative of how the portfolio may perform over different market cycles. Inclusion of the Blue Chip Basket as the cryptocurrency allocation is for illustrative purposes only; other types of cryptocurrency allocations may have performed differently during the same time period.

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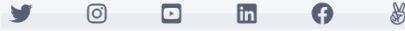
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