

## *The Philosophy Is Not Just Anecdotal*

*This article is a timely reminder that successful long-term investing is often less about avoiding volatility and more about avoiding the silent destruction of inflation. Drawing on more than a century of developed market data and one million simulated investor journeys, recently published research challenges some of the most widely accepted principles of retirement investing - particularly the heavy reliance on bonds and the steady reduction of equity exposure with age. While controversial, the findings strongly reinforce a philosophy Harvard House has held for decades: quality growth assets and rising income streams remain essential for investors who may need their capital to last 30 years or more in retirement.*



**Robin  
Gibson**

Anyone who has journeyed for some time with Harvard House will know that we have long had the refrain that investors need to expose themselves to assets that beat inflation through all economic periods in order to achieve their goals over the long term. (Despite cries to the contrary, retirees do have a long term as more and more people move toward the 100-year life!). This philosophy has been born out of a

long history of share portfolio management and our unique income-focused philosophy. Of course, every investment philosophy endures tough times; ours was Covid and the great property crisis thereafter. Investors who stuck with the philosophy have, however, been rewarded. I recently attended an investment conference where a number of the “Quality” asset managers were bemoaning the difficult time they are having versus the “Growth” managers who are riding the AI wave and the recent commodity boom.

We have done our own limited exercises to demonstrate to investors that an equity and property-based portfolio over time will outperform a more conservative approach, and especially if investors rely on the more consistent income flow produced by such investments. We also have a large group of actual investors who have lived the philosophy and benefitted from it over many years.

Enter a very interesting (and rather controversial) research paper, “Beyond the Status Quo: A Critical Assessment of Lifecycle Investment Advice”, published in July 2025. This 89-page research document used 37 developed stock markets (excluding South Africa, most likely because they consider it an emerging market) with data back to the 1870s. The paper was originally published in 2023, but

### SPEED READ

- Long-term research across 39 developed markets found that higher equity exposure materially reduced the probability of retirees running out of money over their lifetime.
- The study challenges the traditional “get more conservative as you age” approach, suggesting that excessive bond and cash exposure may actually increase long-term retirement risk.
- Using one million simulated real-world market experiences, the research concluded that inflation and longevity - not short-term market volatility - are the greatest threats to retirement sustainability.
- The paper ultimately reinforces a core Harvard House belief: quality shares, property assets, and growing income streams remain among the most effective tools for preserving purchasing power over decades.

its assertions were so controversial that the authors opted to address each of the most relevant critics’ observations through the lens of their data, and then republish. The 2025 paper is updated, and although not peer-reviewed, it has been attacked by some eminent experts, so the authors have addressed each of their concerns.

The paper set out to test two conventional primary tenets of lifecycle investing (lifecycle referring to the full investor experience from the start of the accumulation phase until either death or the exhaustion of capital):

1. The necessity to diversify across both stocks (equities/shares) and bonds.
2. The practice of reducing equity allocations as an investor ages (referred to as target-date funds in the US).

The key assumptions of the model built for the paper were

as follows:

- Start at age 25.
- Invest 10% of household income.
- Retire at 65.
- Draw an initial 4% of capital and escalate with inflation.

What the writers then did was use random blocks of 10-year returns from 39 developed countries between 1890 and 2023. Using what is known as a non-parametric bootstrap approach, they ended up with a significant body of real-world country-month data that they could model for outcomes based on real-world market behaviour.

This approach is used to avoid the normal problem of using a model to predict or demonstrate something. Most models have neat assumptions that miss out on complexities like market crashes or high inflation. So, instead, by using chunks of 10 years of market data at a time (keeping stocks, bonds, and cash all together for the same period), they created 1,000,000 possible market experiences for a couple from age 25 to death, and then tested each of the possible investment allocations (pure equity; equity and bonds; target-date fund) against every one of those 1 million data sets. This gave the closest possible modelling to real-world market experience for modelling purposes.

They ran the model on two scenarios:

1. Calculating the probability of running out of money (financial ruin) before death, and
2. What percentage of your household income is required to be invested to match the lowest risk of financial ruin in retirement.

The results are tabulated below.

PROBABILITY OF FINANCIAL RUIN	
Investment Strategy	Risk of Running out of Money
Full Equity	6.70%
60/40 Equity Bond Strategy	16.90%
Target Date Fund (Reducing equity from 90% at 25 to around 17% at late retirement)	19.70%
100% US Cash	38.90%

*The risk of running out of money (financial ruin) for an assumed 10% savings rate from age 25 to 65, with retirement based on a 4% initial income draw escalated with inflation. The more conservative the investment strategy, the greater the chance of financial ruin.*

### IMPACT OF ASSET ALLOCATION ON SAVINGS LEVEL

Investment Strategy	Savings rate required to match Full Equity
Full Equity	10.00%
60/40 Equity Bond Strategy	19.44%
Target Date Fund (Reducing equity from 90% at 25 to around 17% at late retirement)	16.27%
100% US Cash	56.71%

*The percentage of salary required to be saved to match the best outcome modelled for every asset allocation approach. Again, the more conservative the investment strategy, the higher the required savings rate to compensate for the lower returns.*

I am often challenged by retirees in their 60's and 70's that they cannot take risk because of their imminent demise. This is of course flawed logic, since dying doesn't require capital (just the cost of a funeral). However, living much longer certainly does.

The model assumed the average age at death was 87.6 years, with the low end 5% at 70.8 years and the top 5% starting at 100 years. It makes logical sense that if you die earlier, you need less capital, so a more conservative investment strategy is not as serious in this instance. However, should you do a David Attenborough, then even at 80 years old you need to be concerned about inflation and capital retention or growth. Table 3 below shows the model's probability of financial ruin prior to death based on various age categories.

The paper does acknowledge that, by definition, the optimum approach will result in a higher level of volatility and almost guarantees the experience of difficult events, but that staying the course is the best approach to receive

### FROM SMALL ACORNS



*Equity investing that provides a stream of dividends has reliably provided for people's retirement income for decades.*

## THE IMPACT OF LONGEVITY

### Risk of Running out of Money

Investment Strategy	Life Expectancy < 70.8 years	Average Life Expectancy 87.6 years	Life Expectancy > 96 years
Full Equity	0.20%	6.70%	14.90%
60/40 Equity Bond Strategy	<3.3%	16.90%	32.20%
Target Date Fund (Reducing equity from 90% at 25 to around 17% at late retirement)	<3.3%	19.70%	41.20%
100% US Cash	Not calculated	38.90%	100%+

*The risk of running out of money modelled for early death versus longevity using the alternative investment strategies. The financial risk of a conservative investment strategy rises exponentially the longer you live.*

the modelled outcome.

The model does ultimately suggest that the best outcome is 33% domestic stocks and 67% international stocks; however, this is modelled over developed markets only. The JSE stacks up very favourably, even in US dollar terms, over the last 100 years, so we are not certain a higher JSE weighting is totally inappropriate. (In fact, the model suggests US

domestic clients may opt for a higher domestic weighting more successfully, with slightly higher volatility; the SA market may exhibit similar characteristics). However, the primary point is one Harvard House has made consistently for more than 25 years: cash and bonds don't produce the bacon for long-term investors. Hold those stocks and eat those dividends!



*Consistently saving and ignoring the volatility of the markets, no matter how difficult at the time, will lead to a calmer retirement.*



Our next seminar will be held in June. As usual, we will review the first six months of the year and update our outlook for the remaining six months.

**Topic:** 2026: The first six months

### Natal Midlands

Date: 4 June 2026  
 Venue: Christ Church Howick, 23 Mare Street, Howick  
 Morning Time: 10am for 10.30am  
 Evening Time: 5.30pm for 6pm

### Johannesburg

Date: 9 June 2026  
 Venue: Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham  
 Time: 7am for 7.30am

### Cape Town

Date: 11 June 2026  
 Venue: Kelvin Grove Club, 144 Camp-ground Rd, Newlands, 7700  
 Time: 7.30am  
 Venue: Helderberg Village Lifestyle Estate, 63 Bakkerskloof Rd, Helderberg Village, Cape Town  
 Time: 5.30pm for 6pm



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Performance figures quoted for the portfolio is from Morningstar, as at the date of this document for a lump sum investment, using NAV-NAV with income reinvested and do not take any upfront manager's charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the initial fees charge applicable, the actual investment date, the date of reinvestment and dividend withholding tax. Performance fees do not apply to any funds managed by Harvard House. The manager does not provide any guarantee either with respect to the capital or return of the portfolio. A schedule of fees, charges, and maximum commissions are available on request from the manager.



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