The Barbell Strategy

There are various ways to think about your investment strategy, and the barbell approach can be particularly useful. This is especially true in the current environment, with higher interest rates on fixed investments.

What is a Barbell Approach?

Originally, the term was used for a particular bond trading strategy. It has now been extended to a more general investment strategy.

The idea is simple ... apportion your investment portfolio into **two main buckets or weights**, which form the two ends of the "barbell".

Allocate a large portion of your portfolio (the first bucket) into **low risk, higher yielding investments** that can provide consistency of return or income drawdown needs for a period of say 3 years.

Then, depending on your overall risk tolerance, allocate the second bucket into much higher risk, **potentially much higher return investments**.

The **low-risk component** of the barbell strategy can be invested **into fixed income, money market or shorter duration government bonds**, for example. This allocation can provide not only the required income stream that you, as an investor, may require over the next 3 to 5 years, but also the peace of mind that this component will have a low risk of significant drawdowns.

The **high-risk component** can comprise **growth stocks, private equity, or other alternative strategies**, such as options or hedge funds, etc. This component of the barbell will naturally be more volatile in terms of its price movements, but is designed to provide maximum upside.

What are some of the Advantages?

Firstly, this approach is relatively **simple to implement and to monitor** over time, with the low-risk element providing a high degree of certainty of income drawdown.

Secondly, as mentioned above, the global higher interest rate environment means that there is now a **lower opportunity cost** to implementing this approach.

Thirdly, and very importantly, there is a **psychological benefit to this approach**, which is hugely important. The low-risk component provides a degree of safety, which can help investors to tolerate the higher volatility on the high-risk component.

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