Investments

Why not invest 90% on the market, and 10% against it

Let’s say the market goes up each year by x%, and once every 10 year it goes down 50%

While the average is 10%

(1+x)^9\*0.5=1.1^10

(1+x/1.1)^9=2.2

x =2.2^(1/9)\*1.1-1=~0.2

In this case the portfolio earns 0.9\*1.2+0.1\*0.8=1.16 in the good years, and 0.9\*0.5+0.1\*2=0.65 in the bad year, instead of 1.2 in the good and 0.5 in the bad

I can even make it more stable by investing more against the market. Say I want steady 8%, that means x\*1.2+(1-x)\*0.8=0.8+0.4\*x=1.08 x=0.7

Then in the bad year I get 0.7\*0.5+0.3\*2=0.95, which is not super bad

Generally, if the average is 10% then

x^9\*y=1.1^10

9\*ln(1+x)+ln(1-y)=10\*ln(1.1)

9x-y=0.95