

THE ALL WEATHER STORY

HOW BRIDGEWATER ASSOCIATES CREATED THE ALL WEATHER INVESTMENT STRATEGY, THE FOUNDATION OF THE 'RISK PARITY' MOVEMENT.

ON SUNDAY NIGHT, AUGUST 15, 1971,

President Richard Nixon sat in the Oval Office staring into a television camera and addressed the nation: "I directed Secretary Connelly to suspend temporarily the convertibility of the dollar into gold." After 27 years of relative monetary stability, the United States was breaking from the Bretton Woods system of fixed exchange rates that had tied the dollar's value to gold.

Ray Dalio, fresh out of college, was then a clerk on the New York Stock Exchange. Watching Nixon's speech in his apartment, he tried to fathom the implications. Paper money derived its value from being a claim on gold. Now those claims wouldn't be honored. The next morning he walked on to the chaotic floor of the NYSE expecting stocks to plummet. Instead the Dow Jones Industrial Average rose almost 4% and gold shot higher in what was later dubbed the "Nixon rally." Ray had heard Nixon's announcement but misunderstood its implications.

This event transformed Ray's thinking about markets. Nothing like it had ever happened to him before, so it came as a shock. He quickly realized he couldn't trust his own experience: anyone's lifetime is too narrow a perspective. So he began to study the cause-effect linkages at work in the dollar devaluation and subsequent market pop. He discovered the Bretton Woods breakup was one of many seemingly unique occurrences that, in truth, are more infrequent than unprecedented. A broader perspective revealed that currency devaluations had occurred many times throughout history and across countries, and were the result of the same essential dynamics playing out under different circumstances. Ray dedicated himself to understanding what he would in time call the 'economic machine': the timeless and universal relationships that both explain economic outcomes and repeat throughout history.

Ray is now in his 60s. He founded Bridgewater Associates¹ four years after the Nixon speech. Reflecting back on that incident,

1. Bridgewater Associates, LP manages \$125 billion and is headquartered in Westport, CT. This article was written by Paul Podolsky, Ryan Johnson, and Owen Jennings based on interviews with key personnel who created the All Weather strategy. The authors are all employees of Bridgewater. They struggled to find the right voice because they are employees. We/they ultimately chose to write this article in the third person, reflecting the perspective of outsiders looking in on a creative process that began before any of us joined the firm.

Ray said, "that was a lesson for me. I developed a *modus operandi* to expect surprises. I learned not to let my experiences dominate my thinking; I could go beyond my experiences to see how the machine works."

Ray realized he could understand the economic machine by breaking down economies and markets into their component pieces, and studying the relationships of these pieces through time. This type of thinking is central to All Weather. For instance, any market move can be broken down into a few key components. Markets move based on shifts in conditions relative to the conditions that are priced in. This is the definition of a surprise. The greater the discrepancy, the larger the surprise. That explained the Nixon rally. When countries have too much debt and their lenders won't lend them more, they are squeezed. They, in this case the US, invariably print money to relieve the squeeze. The unexpected wave of new money cheapens its value and alleviates the pressure from tight monetary conditions sending stocks and gold higher. What Ray observed was 'another one of those' - a shift in conditions relative to what people had expected.

The principles behind All Weather relate to answering a deceptively straight-forward question explored by Ray with co-Chief Investment Officer Bob Prince and other early colleagues at Bridgewater - *what kind of investment portfolio would you hold that would perform well across all environments, be it a devaluation or something completely different?*

After decades of study Ray, Bob, Greg Jensen, Dan Bernstein and others at Bridgewater created an investment strategy structured to be indifferent to shifts in discounted economic conditions. Launched in 1996, All Weather was originally created for Ray's trust assets. It is predicated on the notion that asset classes react in understandable ways based on the relationship of their cash flows to the economic environment. By balancing assets based on these structural characteristics the impact of economic surprises can be minimized. Market participants might be surprised by inflation shifts or a growth bust and All Weather would chug along, providing attractive, relatively stable returns. The strategy was and is passive; in other words, this was

the best portfolio Ray and his close associates could build without any requirement to predict future conditions. Today the All Weather strategy and the concepts behind it are fundamentally changing how the biggest capital pools in the world manage money. What began as a series of questions has blossomed into a movement. This article tells the story of how All Weather came into being. It recounts how a series of conversations hardened into principles that are the foundation of a coherent and practical investment philosophy.

A DISCOVERY PROCESS

Ray founded Bridgewater in 1975 in his New York City brownstone apartment. At the time, he actively traded commodities, currencies and credit markets. His initial business was providing risk consulting to corporate clients as well as offering a daily written market commentary titled Bridgewater Daily Observations that is still produced. The competitive edge was creative, quality analysis.

Among his clients were McDonalds and one of the country's largest chicken producers. McDonalds was about to come out with Chicken McNuggets and was concerned that chicken prices might rise, forcing them to choose between raising their menu prices or having their profit margins squeezed. They wanted to hedge but there was no viable chicken futures market. Chicken producers wouldn't agree to sell at a fixed price because they were worried that their costs would go up and they would then take a loss on their supply contracts. After some thought, Ray went to the largest producer with an idea. A chicken is nothing more than the price of the chick (which is cheap), corn, and soymeal. The corn and soymeal prices were the volatile costs the chicken producer needed to worry about. Ray suggested combining the two into a synthetic future that would effectively hedge the producer's exposure to price fluctuations, allowing them to quote a fixed price to McDonalds. The poultry producer closed the deal and McDonald's introduced the McNugget in 1983.

This early work reflected a truth. Any return stream can be broken down into its component parts and analyzed more accurately by first examining the drivers of those individual parts. The price of poultry depends on the price of corn and soymeal. The price of a nominal bond can be broken down into a real yield and an inflation component. A corporate bond is a nominal bond plus a credit spread. This way of thinking laid the groundwork for constructing All Weather. If assets can be broken down into different component parts and then summed up to a whole, so too could a portfolio.

PORTFOLIO BUILDING BLOCKS

In time, Ray and Bob set their sights on managing liabilities, not merely advising on what to do with them. For any asset there is a corresponding liability and, relative to asset management, liability management appeared to be an underserved market. There was a long education process to convey the value proposition to a

corporate treasurer, however. To do so, Ray, Bob and others would write a "Risk Management Plan." These were tailored analyses that generally followed three steps; a) identify the risk neutral position for the corporation b) design a hedging program to reach that exposure and c) actively manage around that exposure, hiring Bridgewater and paying them based on performance around this neutral position. Over time this approach had Ray, Bob and others managing \$700 million in corporate liabilities.

The evolution to managing assets occurred in 1987. The World Bank pension fund had been following Bridgewater's research. On the basis of this research and Bridgewater's track record managing liabilities, they opened a \$5 million bond account. Given the decade plus of experience managing liabilities, Bridgewater approached the asset portfolio in the same way. The bond benchmark was the risk neutral position; the active management was the value added, or alpha, gained from deviating from the benchmark. The two are completely separate.

This is an important insight. While there are thousands of investment products, there are only three moving parts in any of them. Consider buying a conventional mutual fund. The investment may be marketed as a 'large cap growth fund.' The reality is that the return of that product, or any product, is a function of a) the return on cash b) the excess return of a market (beta) above the cash rate and c) the 'tilts' or manager stock selection (alpha). The mutual fund blurs the distinction between the moving parts, which makes it hard to accurately assess the attributes of any one part or the whole. In summary:

$$\text{RETURN} = \text{CASH} + \text{BETA} + \text{ALPHA}$$

Many people, perhaps most, don't look at investment returns from this perspective and as a result miss a lot. The cash rate is after all controlled by a central bank, not the investor, and can move up or down significantly. In the US after peaking above 15% in the 1980s, cash rates are now zero. Stocks and bonds price *relative* to and in excess of cash rates. A 10-year bond yield of 2% is low relative to history but high relative to 0% cash rates. What is unusual about the recent environment is the price of cash, *not the pricing of assets relative to cash*.

The characteristics of betas and alphas are distinct. Betas are few in number and cheap to obtain. Alphas (i.e. a trading strategy) are unlimited and expensive. The most important difference is the expected return. Betas in aggregate and over time outperform cash. There are few 'sure things' in investing. That betas rise over time relative to cash is one of them. Once one strips out the return of cash and betas, alpha is a zero sum game. If you buy and I sell, only one of us can be right. The key for most investors is fixing their beta asset allocation, not trading the market well. The trick is to figure out what proportion of stocks, bonds and commodities to hold such that a static portfolio is reliable. That is the question ("what kind of investment portfolio would you hold that would perform well across all environments") Ray, Bob, Dan and others were trying to answer. The first step was to separate out the beta from cash and alpha.

BALANCING AND RISK-ADJUSTING ASSETS

By this time Bridgewater had decamped from Manhattan to rural Connecticut, eventually ending up in Westport. Now that Bridgewater was managing pension assets, other pension funds began exploring Bridgewater's capabilities. Among those for whom Bridgewater provided advice was Rusty Olson, the CIO of a large US-based consumer goods manufacturer pension plan. Rusty asked what Bridgewater thought about his plan of using long duration zero coupon bonds in the pension portfolio. Ray gave a quick answer on the spot, suggesting it was a great idea but that they should use futures to implement it so that they could create any duration they desired. Ray said he would get back to Rusty with a more fully fleshed out idea. The brainstorming happened on a Friday. Merely getting asked the question was a coup. Not that long ago Bridgewater had been a niche investment adviser and at the time it had very little money under management. Now an iconic CIO was asking their counsel. Ray, Bob, Dan and a few other Bridgewater employees at the time worked all weekend to get Rusty an answer on how to do this best.

Step one in the pension analysis was breaking down this manufacturer's pension portfolio into the three key components described above (cash or the risk free position, beta, and alpha). The typical institutional portfolio had (and still has) roughly 60% of its dollars invested in equities and as a result almost all of its risk. The rest of the money was invested in government bonds as well as a few other small investments, which are not as volatile as the stocks. This is the type of asset allocation many investors held at the time and remains the basic advice many investors still adhere to. Rusty was an innovative thinker and had begun deviating from conventional wisdom by trying to construct a high-returning portfolio out of uncorrelated returns, while maintaining a high commitment to equities. Rusty was struggling with what to do about nominal zero coupon government bonds. He thought they had too low a return to justify a place in his portfolio and were cash intensive, yet, at the same time, he correctly feared his portfolio was vulnerable in a deflationary economic contraction. So he had begun a program to protect his portfolio using long duration treasury bonds, which used much less cash than normal bonds. He wondered what Bridgewater could add to this approach.

Bridgewater's response documented two key ideas that would later reappear in All Weather - environmental bias and risk balancing assets. Ray, Bob and others knew that holding equities made an investor vulnerable to an economic contraction, particularly a deflationary one. The Great Depression was the classic example of this. Stocks were decimated. It was also true as Rusty suspected that nominal government bonds provided excellent protection in these environments. The goal was an asset allocation that didn't rely on predicting when the deflationary shift would occur but would provide balance nonetheless.

The 1990 memo to Rusty put it this way, *"Bonds will perform best during times of disinflationary recession, stocks will perform best during periods of... growth, and cash will be the most attractive when money is tight."* Translation: all asset classes have environmental biases. They do well in certain environments and poorly in others. As a result, owning the traditional, equity heavy portfolio is akin to taking a huge bet on stocks and, at a more fundamental level, that growth will be above expectations.

The second key idea stemmed from their work helping corporations hedge unwanted balance sheet exposures. Ray, Bob, Dan and others always thought first about *risk*. If the risks didn't offset, the client would be exposed. Due to his equity holdings Rusty was exposed to the risk that growth in the economy would be less than discounted by the market. To 'hedge' this risk, the equities needed to be paired with another asset class that also had a positive expected return (i.e. a beta) but would rise when equities fell and do so in a roughly similar magnitude to the decline in the stocks. The Bridgewater memo agreed that Rusty should hedge this risk with long duration bonds that would have roughly the same risk as his stocks. Quoting from the study: *"low-risk/low-return assets can be converted into high-risk/high-return assets."* Translation: when viewed in terms of return per unit of risk, all assets are more or less the same. Investing in bonds, when risk-adjusted to stock-like risk, didn't require an investor to sacrifice return in the service of diversification. This made sense. Investors should basically be compensated in proportion to the risk they take on: the more risk, the higher the reward.

As a result of this work, Ray wrote Rusty, *"I think your approach to managing the overall portfolio makes sense. In fact, I would go so far as to say that I think it makes more sense than any strategy I have seen employed by any other plan sponsor."* The long duration bonds, or futures equivalents, would make the portfolio roughly balanced to surprises in economic growth while not giving up return. Bridgewater began managing Rusty's bond portfolio and also overlaid their own alpha (this portfolio became their first 'alpha overlay' account).

BALANCING GROWTH AND INFLATION

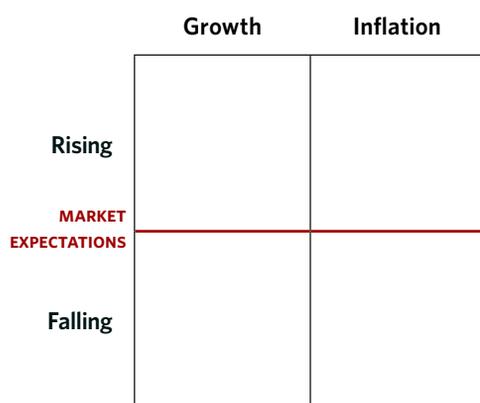
Over time these discrete discoveries - breaking a portfolio into its parts, recognizing environmental biases, risk adjusting asset classes - began to harden into principles, concepts that could be applied over and over again. Running these portfolios in real time, particularly through economic shocks ranging from stock market crashes to banking crises to emerging market blow ups reinforced a confidence in the principles. Yet, there were a few additional insights that would come before All Weather would grow into a mature concept. A key step was framing growth and inflation as *the* environmental drivers that mattered and mapping asset classes to these environments.

Ray, Bob and their other close associates knew stocks and bonds could offset each other in growth shocks, such as they had mapped out for Rusty. They also knew there were other environments that hurt *both* stocks and bonds, such as rising

inflation. That was obvious because they lived through these shifts. For a 1970s style environment it was much better to hold commodities than it was to hold stocks and nominal bonds. This notion was rattling around in conversations and became fully formed for Bob in a simple experiment.

Since the invention of the PC early Bridgewater employees had utilized technology to collect and chart data and process decision rules. They called these rules 'indicators.' These were the 'timeless and universal' linkages Ray had set out to understand in the 1970s. A PC was a big step up in efficiency from a slide rule or an HP hand-held calculator and graphs plotted by hand with colored pencils, which was what they used early on. Bob was fiddling around with a new computer program, Microsoft Excel. Microsoft had released the first windows based version of it in 1987. With these tools Bob began playing around to see how shifting asset weights would impact portfolio returns. He found that the best performing portfolio was 'balanced' to inflation surprises. This made some sense coming after the inflationary 1970s and the dis-inflationary 1980s. It also held true for more extreme shocks, like the 1920s German hyperinflation or the US Depression. Bob shared his discovery with Ray. "I showed it to Ray and he goes, 'that makes sense,'" Bob recalled years later. "Then he goes, 'But it really should go beyond that, it should really also be balanced to growth.'"

This was classic Bridgewater. Though the 'data' indicated one thing (to balance assets via inflation sensitivity) common sense suggested another. The message - don't blindly follow the data. Ray proceeded to sketch out the four boxes diagram below as a way of describing the range of economic environments any investor has faced in the past or might face in the future. The key was to put equal *risk* on each scenario to achieve balance. Investors are always discounting future conditions and they have equal odds of being right about any one scenario.



This diagram tied key principles together and became a template for All Weather. Much as a portfolio can be boiled down to three key drivers, economic scenarios can be broken down to four. There are all sorts of surprises in markets, but the general pattern of surprises follows this framework, because the value of any investment is primarily determined by the volume of economic activity (growth) and its pricing (inflation). Surprises impact markets due to changes in one or both of those

factors. Think about any stress scenario and it ends up putting a portfolio in one or two of these sectors unexpectedly. The 1970's oil shocks, the disinflation of the 1980's or the growth disappointments post 2000 were all shifts in the environment relative to expectations. This framework captured them all. More importantly, it captured future, yet unknown surprises. There were many economic surprises after Bridgewater started running All Weather, and they were different from the surprises that preceded the strategy but the strategy weathered them all. The framework is built for surprises in general, not specific surprises, the very issue Ray had been wrestling with at the outset.

Initially the four box framework was used to explain alpha diversification with prospective clients. The framework explained the concept in such an intuitive and clear way that it became the starting point of their conversations. To be sure, at this time the focus of the key Bridgewater personnel was on alpha, not beta. To do so, Ray, Bob and Dan were obsessed with identifying and articulating timeless and universal tactical decision-making rules across most liquid financial markets. The tactical strategy that resulted from this work, Pure Alpha, was launched in 1991, years before All Weather came into being.

THE FINAL INGREDIENT: INFLATION-LINKED BONDS

If Bridgewater is the pioneer of risk parity, it is also true the firm played a critical role in the acceptance of inflation-linked bonds in institutional portfolios. Inflation-linked bonds play an important role in All Weather. The concept of a security whose principal value is tied to inflation dates to at least the 18th century but in the early 1990s inflation-linked bonds were not playing a significant role in institutional portfolios. Like the other discoveries along the way, this one came out of a conversation, or a series of them. A US foundation came to Bridgewater with a question: how could they consistently achieve a 5% real return? By law the foundation had to spend 5% of its money every year, so for it to keep operating in perpetuity it had to generate a 5% real return.

Going back to the building blocks of a given portfolio, the client's "risk-free position" was no longer cash, but rather a portfolio that provided a real return. Inflation-linked bonds, bonds that pay out some real return plus actual inflation, would 'guarantee' this 5% hurdle, as long as one could find bonds paying 5% real coupons. The main problem, however, was that there weren't any of these bonds in the US at the time. They were issued widely in the UK, Australia, Canada and a few other countries. As currency and bond managers, Ray, Bob and Dan knew how to hedge a bond portfolio back to dollars, eliminating the currency impact. The three of them sought to construct a global inflation-linked bond portfolio and hedge it back to the US dollar as a solution for the endowment. At the time, global real yields were around 4% so a little bit of leverage had to be applied to the inflation linked bonds to reach the endowment's target.

Through their work for the foundation it became clear inflation-

linked bonds were a viable, underutilized asset class relative to their structural correlation benefits. Inflation-linked bonds do well in environments of rising inflation, whereas stocks and nominal government bonds do not. As a result, the bonds filled a diversification gap that existed (and continues to exist) in the conventional portfolio. Most investors do not hold any assets that perform well when inflation surprises to the upside outside of commodities, which tend to comprise a tiny fraction of their overall portfolio. From the environmental perspective Bridgewater established, inflation-linked bonds helped balance out both boxes and other asset classes in a way no other asset class could (inflation-linked bonds are also negatively correlated to commodities relative to growth, an added benefit). Unsurprisingly, when the US Treasury decided to issue inflation-linked bonds, officials came to Bridgewater to seek advice on how to structure the securities. Bridgewater's recommendations in 1997 led to TIPS being designed as they now are.

25 YEARS IN THE MAKING: THE ALL WEATHER STRATEGY

The fully formed All Weather emerged in 1996 as Ray, Bob and by this point the third CIO, Greg Jensen, who had joined Bridgewater out of college, sought to distill decades of learning into a single portfolio. The impetus was Ray's desire to put together a family trust and create an asset allocation mix that he believed would prove reliable long after he was gone. The accumulation and compounding of the investment principles Bridgewater had discovered, while hedging McNuggets, helping Rusty balance his portfolio, or managing inflation-linked bonds, came together into a real portfolio. The ultimate asset allocation mapped asset classes onto the environmental boxes framework, as shown in the diagram below.

		Growth	Inflation
MARKET EXPECTATIONS	Rising	25% OF RISK Equities Commodities Corporate Credit EM Credit	25% OF RISK IL Bonds Commodities EM Credit
	Falling	25% OF RISK Nominal Bonds IL Bonds	25% OF RISK Equities Nominal Bonds

Bridgewater had learned to map asset classes to the environments through study. They also knew that all the asset classes in the boxes would rise over time. This is how a capitalist system works. A central bank creates money, and then those who have good uses for the money borrow it and use it to achieve a higher return. These securities by and large come in two forms: equity (ownership) and bonds (loans). As a result, the boxes don't offset each other entirely; the net return of the assets in aggregate are positive over time relative to cash. The

environmental exposures cancel each other out, which leaves just the risk premium to collect.

Ray described creating the portfolio "like inventing a plane that's never flown before." It looked right, but would it fly? He started running a pilot with his assets, and it was someone's part-time job to rebalance the portfolio from time to time. The portfolio flew the way Bridgewater expected, but it remained purely for Ray's trusts. All Weather was never envisaged as a product. It was profound enough that no one was doing it but at the same time so straightforward that anyone could seemingly do it for themselves. While US equities were in the early stages of the tech bubble, Ray and others began propounding the concepts of balance, initially to rather indifferent interest.

The crash of 2000 changed that. With the bursting of the bubble came the realization that equities were by no means a "sure thing." The tech bubble implosion shifted the mindset of the average investor, reminiscent of the disruptions of Bretton Woods, the oil shocks and the 1987 stock market crash. Many money managers began shifting towards alpha (tactical bets) as a way to cope with what they perceived as a now-unstable stock market.

EARLY INVESTORS

Around that time, Bob began talking with Britt Harris, then CIO of a major corporate pension fund, which was a client of Bridgewater's. Bob and Britt knew each other from coaching their children together and their children's' common nursery school. Britt called Bob up one Sunday and asked about inflation-linked bonds and how they would fit into an investment portfolio. Bob told Britt, "Let me tell you what I would do if I were in your shoes." The portfolio he described and they built for Britt's pension plan – as you might expect – was All Weather. It was so unorthodox that Britt insisted on a massive due diligence process, which further helped codify the principles underlying the All Weather approach. As Bob recounts, "Britt said, 'when the regulators come and ask me the question, I want to be able to pull the book off the shelf and show them all the work we did to show that this makes sense.'" The pension fund started with a \$200mm allocation.

The second large client to adopt the All Weather approach was a major automobile company. They had just issued pension obligation bonds because they were severely underfunded in the aftermath of the 2001 stock market crash. The CIO wanted to manage this "new money" from the bond issuance in a "new way." The CIO sent out perhaps 30 letters to the top institutional money managers in the world and ended up hiring five to manage his "new money"; Bridgewater was one of them.

Ray, Bob and Greg advised this company to build a portfolio based on principles the CIO could use for the entire fund: find the best asset allocation, find the best alpha, and then combine the two in such a way so as to reflect your relative confidence in each. The eventual total portfolio ended up being a roughly 70/30 split between beta and alpha (All Weather and Pure

Alpha, Bridgewater's actively-traded portfolio). The novelty was the All Weather component. It was slowly becoming apparent that some of their clients were recognizing the benefits of environmental balance and diversification and would be willing to hire Bridgewater to implement this for them.

To be sure, there was still resistance to the All Weather concepts. Peer risk dissuaded some investors for fear that they wouldn't track their benchmark or peer group. The idea of leverage also raised questions. Some were wholly unfamiliar with the concepts of financial engineering and therefore were initially uncomfortable with derivative instruments (e.g., futures and swaps). And last, there was a big question over where exactly All Weather would fit in or who would own the profit and loss. However, after nearly a decade of poor performance and the credit crises of 2008, investors were hungry for an alternative. A clever consultant adopted the term "Risk Parity" and created an asset allocation bucket thereby opening the floodgates to strategies that one way or another seek to balance risks in a portfolio.

Gradually objections surrounding All Weather eased. As investors grew accustomed to looking at leverage in a less black-and-white way – "no leverage is good and any leverage is bad" – many have come to understand that a moderately-levered, highly-diversified portfolio is less risky than an unleveraged, un-diversified portfolio. Leverage is an implementation tool. If you can't predict the future with much certainty and you don't know which particular economic conditions will unfold, then it seems reasonable to hold a mix of assets that can perform well across all different types of economic environments. Leverage helps make the impact of the asset classes similar.²

THE ELEGANT SOLUTION

Fast forward to today. There is no limit to how the All Weather principles of balance can be applied and over time could perhaps contribute to a more stable financial system. One of the largest Canadian pension plans adopted All Weather as the benchmark for their entire plan. Other organizations have completely revamped their structure into alpha and beta teams. Some are introducing these concepts into defined contribution plans as an investment choice. A recent survey indicated most institutional investors are familiar with the concept and 25% are using it in their portfolio, though that of course means the vast majority of investors aren't yet using what is effectively new technology.

All Weather grew out of Bridgewater's effort to make sense of the world, to hold the portfolio today that will do reasonably well 20 years from now even if no one can predict what form of growth and inflation will prevail. When investing over the long run, all you can have confidence in is that (1) holding assets should provide a

return above cash, and (2) asset volatility will be largely driven by how economic conditions unfold relative to current expectations (as well as how these expectations change). That's it. Anything else (asset class returns, correlations, or even precise volatilities) is an attempt to predict the future. In essence, All Weather can be sketched out on a napkin. It is as simple as holding four different portfolios each with the same risk, each of which does well in a particular environment: when (1) inflation rises, (2) inflation falls, (3) growth rises, and (4) growth falls relative to expectations.

Overconfidence often pushes people to tinker with things they do not deeply understand, leading them to over-complicate, over-engineer, and over-optimize. All Weather is built very intentionally to not be that way. With the All Weather approach to investing, Bridgewater instead accepts the fact that they don't know what the future holds, and thus choose to invest in balance for the long-run. Often Bridgewater people are asked at a cocktail party or a family gathering what to invest in. They don't delve into the active alpha portfolio. That wouldn't be useful anyway – the portfolio moves around. What the average person needs is a good, reliable asset allocation they can hold for the long-run. Bridgewater's answer is All Weather, the result of three decades of learning how to invest in the face of uncertainty. Ray's trust assets remain invested in All Weather.

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2. As an example, if you invest \$10 in the S&P 500 and \$10 in US bonds, the portfolio risk is dominated by the S&P because it is much riskier than the bonds. If instead you invest \$5 in the S&P and \$15 in 10 year bonds the portfolio is much more balanced, though with a lower return. Invest \$5 and \$15 in the manner described and add a bit of leverage and the portfolio has the same return as the stocks but less risk.