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**LIFECYCLE INVESTING**  
A NEW, SAFE, AND AUDACIOUS WAY TO IMPROVE THE  
PERFORMANCE OF YOUR RETIREMENT PORTFOLIO

By Ian Ayres and Barry Nalebuff

“A most provocative book. The real advantages of time diversification have never been laid out so clearly or with such a program of action.”

—Robert J. Schiller, author of *Irrational Exuberance*

Anyone investing for retirement has heard the familiar refrains: diversify your assets, invest in stocks when you're young, decrease your exposure to risk as you approach retirement age. This strategy is the underpinning of every index fund and the conventional wisdom of asset managers. By spreading money across different types of investments you limit losses without sacrificing potential gain.

And yet there's something missing. Economists and business experts Ian Ayres and Barry Nalebuff agree that asset diversification is an important tool for investors to reduce risk and maximize returns. But, they posit that even those who spread their assets over stocks, commodities, and markets are missing out on time diversification. In **LIFECYCLE INVESTING: A New Safe, and Audacious Way to Improve the Performance of Your Retirement Portfolio** (Basic Books; Hardcover; May 4, 2010), Ayres and Nalebuff outline their novel and bold approach to investment and risk management.

According to Ayres and Nalebuff, even those investors who carefully maintain a diverse portfolio don't do a good job of diversifying across *time*. “Just as it would be a mistake to invest all your savings in a single stock,” they write. “It would be reckless to concentrate all your exposure to the stock market into a single year.” Most investors do essentially that. The few thousand dollars of stock exposure that most young workers have in their twenties doesn't amount to much diversification down the road. Though you might invest a large percentage of your portfolio into stocks in your late twenties, in terms of raw dollars, you may have twenty to fifty times more invested in the stock market as retirement approaches than you did when you were just starting to save. To combat this often lost opportunity to diversify risk, Ayres and Nalebuff offer a simple but daring prescription: Use leverage to buy stocks when you're young.

Though the idea of using leverage to reduce risk may seem counterintuitive, Ayres and Nalebuff argue that buying stock on leverage is the best way to diversify over time. This method of investing increases short-term risk, but decreases long-term risk by evening-out the lopsided exposure to the market that most investors face. Stocks for the long run is a great concept. The only problem is that most investors don't hold enough stocks when they have a long run and don't have a long run by the time they have stocks.

The basic strategy of **LIFECYCLE INVESTING** has three phases:

- Phase 1: Retirement savings are leveraged at 2:1. This phase typically lasts for the first dozen years of one's working life
- Phase 2: Until one's fifties, investments are leveraged more than 100 percent but less than 200 percent
- Phase 3: Until retirement, investments are fully unleveraged and one's portfolio includes corporate and government bonds along with stocks.

While the **LIFECYCLE** model cannot eradicate risk—one could still lose money on stocks early on or miss a boom after reducing one's market exposure—time diversification does reduce risk substantially. To prove it, Ayres and Nalebuff apply their investment strategy to Monte Carlo trials and stock market data from 1871 to the present. This rigorous historical analysis proves that by diversifying over time, investors could have reduced risk by over 20% or achieved 63% higher returns for the same risk.

Whether you're just starting to save or are already well down the road, Ayres and Nalebuff's strategy of time diversification is an essential tool for managing your portfolio. Clearly written and backed by rigorous research, **LIFECYCLE INVESTING** presents a simple but radical idea that will shake up how we think about retirement investing.

#### **ABOUT THE AUTHORS:**

**Ian Ayres** is an economist, a lawyer, and the William K. Townsend Professor at Yale Law School. He has written for the *New York Times*, *Wall Street Journal*, *Financial Times*, *Slate*, and *The New Republic*, and his research has been featured on *PrimeTime Live*, *Oprah*, and *Good Morning America*. He is the author of ten books, including the bestseller, *Super Crunchers*. A graduate of Yale and MIT, he was recently elected to the American Academy of Arts and Sciences. He lives in New Haven, CT.

**Barry Nalebuff** is the Milton Steinbach Professor of Economics and Management at Yale School of Management. He is the author of fifty scholarly articles and multiple books—including *Co-opetition* and *The Art of Strategy*—and is the cofounder of Honest Tea. A graduate of MIT and a Rhodes Scholar, he earned his doctorate at Oxford University. He lives in New Haven, CT.

#### **ABOUT THE BOOK:**

##### **LIFECYCLE INVESTING**

##### **A New, Safe, and Audacious Way to Improve the Performance of Your Retirement Portfolio**

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