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A commentary on the CFA article "The Best Defensive Strategies: Two Centuries of Evidence"

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In our previous monthly article, we discussed the traditional 60/40 equity–bond portfolio and the Defensive Absolute Return (DAR) downside-protection strategy. Baltussen et al. (2026) extend that conversation with an unusually long historical lens (more than 200 years of financial data) to evaluate how the 60/40 portfolio performs and which defensive strategies actually reduce downside risk.

The authors find that the 60/40 portfolio produces moderate average annual returns but is vulnerable to large drawdowns during episodes of elevated volatility. Because the study spans two centuries, it uncovers patterns that shorter-term analyses miss and yields stronger statistical confidence in its conclusions. Rather than limiting themselves to conventional hedges, the researchers test a broad set of defensive approaches, ranging from classical instruments like gold and put options to systematic methods such as trend-following and factor-based hedges.

One of the paper's surprising conclusions is that gold's role as a safe haven is at best overstated and may never have been as reliable as commonly believed. Over the 200-year sample, gold frequently co-moves with a 60/40 equity–bond portfolio instead of offsetting its declines, and it emerges as one of the weakest defensive strategies in the authors' comparisons. Using 1764 months of data, the study shows that gold underperforms not only during market downturns but also across different inflation regimes, challenging the conventional wisdom that gold reliably protects portfolios from either deflationary or inflationary shocks.

DAR4020, a variant introduced by the authors, modifies the original DAR approach. Whereas DAR goes long the 33% of factor strategies that are most negatively correlated with a 60/40 portfolio and short the 33% most positively correlated, DAR4020 adjusts those cutoffs to 40% and 20%, respectively. The authors show that a blend of the 60/40 portfolio, DAR4020, and a trend-following strategy dominates the other combinations they examine: it preserves the upside of the 60/40 allocation while DAR4020 helps mitigate downside risk. This combined strategy produces materially higher annualized returns and smaller drawdowns, albeit with increased volatility.

The paper's historical analysis is notable for its depth. Its long-term perspective encompasses a broad array of episodes like wars, depressions, inflation shocks, and structural shifts in financial markets, offering rare coverage of extreme and transitional periods. The authors' unified framework allows a comprehensive comparison across asset classes, derivatives, and systematic strategies, and the results are practically relevant: by evaluating how alternative strategies alter a standard 60/40 allocation, the paper yields insights directly applicable to real-world asset allocation. The central finding that a diversified combination of hedges outperforms reliance on a single hedge is particularly useful for practitioners seeking robust portfolio improvements.

The study does have important limitations. Chief among them is data quality. Financial records from the 19th and early 20th centuries are often incomplete, manually recorded, and prone to measurement error. Although the authors assert they use a reliable dataset, one of the paper's authors contributed to the construction of that dataset and, at the time of writing this commentary, has not undergone independent peer review. Given the central role of long-run data in the paper's conclusions, closer scrutiny and independent validation of the underlying dataset are warranted.

The 220-year backtest covers multiple factors, with the value factor being among the most important. However, the authors changed the value-factor definition in 1926: they used dividend yield for 1875–1926 and book-to-market thereafter. These measures are correlated but not identical. Harvey et al. (2019) report negative results for book-to-market value, while the paper finds positive results for dividend yield — the differing definitions help explain the discrepancy. The paper notes this splice but does not fully quantify how much of the reported performance derives from the definition change versus the underlying factor.

Transaction cost is omitted and the authors defer implementation analysis to future research. This is not a minor caveat: DAR4020 requires monthly rebalancing of a long-short portfolio across global equities, bonds, currencies, and commodities using futures and currency forwards, hence monthly turnover involves real friction. Net-of-cost returns could differ materially.

Baltussen, Martens, and van der Linden offer a compelling and thought-provoking examination of defensive investing. Their findings challenge traditional beliefs about gold's safe haven role and **emphasize the power of systematic strategies**: **robust, rule-based strategies with disciplined risk-control systems are more likely to deliver scalable and repeatable downside protection**. At the same time, the paper underscores the difficulties of translating historical evidence into practical investment decisions. In sum, the study is an important step forward in understanding downside protection, but it also highlights the need for further research that incorporates realistic implementation constraints and forward-looking considerations.

Bibliography

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