Last weekend's "Intelligent Investor" column, which discussed portfolios built around economic scenarios rather than forecasts of investment returns, drew tons of feedback.

Several readers pointed out, rightly, that the approach is reminiscent of the "Permanent Portfolio" advocated by the late newsletter writer (and erstwhile Libertarian Party presidential candidate) Harry Browne.

Conventional portfolios tend to be diversified on the beliefs that bonds will zig whenever stocks zag, that there is a safe haven in every storm, and that past patterns of risk and return will hold in the future as well.

However, as the past few years have shown, many bonds move in unison with stocks. High-yield bonds crashed right along with U.S. equities in 2008 and 2009, for instance - and even investment-grade corporate bonds have more in common with stocks than many investors might care to recognize.

In catastrophic markets, a safe haven is hard to find. In the financial crisis of 2008 and 2009, virtually all financial assets collapsed together - even though many had appeared to move in different directions when markets were calmer.

Furthermore, the extent to which different assets move in synch with each other - technically known as "correlation" - changes over time. For much of the 1990s, for instance, U.S. Treasury bonds tended to move in the same direction as U.S. stocks. Then they "decoupled." During the 2008-2009 crisis, Treasury bonds were almost the only thing that went up. That might not be true in the next panic - especially now that Treasury bonds generate such feeble streams of income.

As Craig Rowland points out in his solid new book, The Permanent Portfolio, "Stocks do not go up because bonds are going down, and stocks do not go down because bonds are going up." But that's the assumption that underlies conventional diversification.

What I called "differsification," however, seeks to find assets that will perform differently under the four basic conditions that all nations' economies eventually cycle through: prosperity, inflation, recession and
deflation. Stocks, bonds and all other financial assets do well under some of these conditions and poorly under others. Harry Browne's Solomonic solution was to divide your money equally and permanently across four buckets: stocks, bonds, cash and gold.

Javier Estrada, a finance professor at the IESE Business School in Barcelona, Spain, emailed with his calculation that a permanent portfolio divided in four equal pieces across stocks, bonds, cash and gold would have returned an average of 9.1% annually between 1970 and the end of 2012. It had half the volatility of an all-stock portfolio and about 25% less than a portfolio consisting of 60% stocks and 40% bonds - and, unlike either an all-stock portfolio or a 60/40 mix of stocks and bonds, never suffered a negative return over any 36-month period over that span.

Many readers wanted to know what proportion of their assets they should put in each bucket. That, of course, depends on your personal circumstances. During a recession, for example, a lucky few - prison guards, priests or tenured professors, perhaps - will have job security and won't have to worry much. (The rest of us are a different story.) During a period of inflation, a commercial landlord will probably be able to sustain roughly the same level of income, adjusted for the rising cost of living. (Most people on a salary and most retirees on fixed incomes are a very different story.) So how much money you put in each bucket depends on what you most need to protect against.

For most people, the inflation bucket is likely to be the emptiest. If putting gold or other commodities in that bucket makes you nervous because of their high price and risk, consider inflation-protected Treasury bonds, or "TIPS." As my colleague Brett Arends recently pointed out, TIPS are priced to lose money at today's yields. But that will turn out to be true only if inflation doesn't end up higher than expected. If the cost of living rises much faster than roughly 2.5% over the next 10 to 30 years, TIPS will do well.

Inflation could turn out to be even lower than 2.5%, of course. But it's higher inflation most people need to worry about - especially inflation that's even higher than expected. And that's exactly what TIPS insure against: the risk of inflationary surprises.

You don't buy homeowners' insurance when you think the risk of damage to your house is unusually high and then cancel the policy when you believe the risk has dropped. Nor do you buy insurance on your house only when policies happen to be cheap. Likewise, you can and should own TIPS permanently - not just when you think they happen to be at bargain prices.