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# Buffett's 90/10 Strategy Revealed, How This No-Fuss Formula Builds Long-Term Wealth

Exploring the Benefits and Risks of Buffett's 90/10 Allocation

By **HENRY HOENIG** Published November 05, 2025



Warren Buffett's 90/10 investment strategy for average investors is easy to implement but requires patience over the long haul.

Credit: Paul Morigi / Stringer / Getty Images

#### **KEY TAKEAWAYS**

- Warren Buffett's 90/10 strategy involves allocating 90% of assets to a low-cost S&P500 index fund and 10% to short-term government bonds.
- The 90/10 rule offers simplicity, lower fees, and the potential for higher returns.
- The strategy is based on historical returns for the S&P 500, as well as Buffett's skepticism about the performance of the average fund manager.
- Critics say such a high allocation to equities isn't suitable for all investors, particularly those nearing retirement or already retired.

The 90/10 rule comes from legendary Warren Buffett's advice for average investors. Put 90% of your money into a low-cost S&P 500 index fund and the other 10% in short-term government bonds.

The idea is simple: most people don't have the expertise needed to make great decisions about investing in individual stocks—don't take that as a knock since Wall St. money managers often fail to match the returns of simple index funds. So save money on management fees, bet on the American economy, and be patient, Buffett says.

But is this a good strategy for all investors? Below, we take a closer look at the thinking behind the 90/10 rule and whether it stands up to the test of time.

## Background of the 90/10 Strategy

Buffett explained the 90/10 strategy in a 2013 letter to Berkshire Hathaway Inc. (BRK.A)investors. A devotee of legendary value investor Benjamin Graham, Buffett described investing as buying "small portions of businesses" and noted that the average investor lacks the skill to analyze companies similarly.

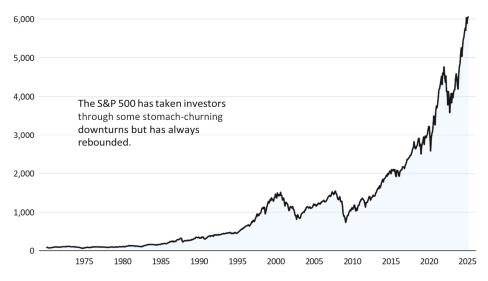
"I have good news for these non-professionals: The typical investor doesn't need this skill. In aggregate, American business has done wonderfully over time and will continue to do so (though, most assuredly, in unpredictable fits and starts)." [1]

In fact, the typical investor also doesn't need today's fund managers or their fees, Buffett said. He has long been critical of most asset managers, noting that most can't consistently beat the S&P 500 (he's right). So it's little wonder he would advise people not to chases oaring individual stocks or a rampaging bull market. "Remember the late Barton Biggs observation: 'A bull market is like sex. It feels best just before it ends," he said. [1]

In the same letter, Buffett went on to explain that in his will, he advised the appointed trustee to invest the cash he planned to leave his wife (his Berkshire Hathaway shares will go to charity) the same way: 90% in a "very low-cost" S&P 500 index fund and 10% in short-term government bonds.

"I believe the trust's long-term results from this policy will be superior to those attained by most investors—whether pension funds, institutions, or individuals—who employ high-fee managers," he wrote. [1]

#### Ups and Downs of the S&P 500 (1970-2025)



Source: TradingView • Created with Datawrapper

## Components of the 90/10 Investment Strategy

There are two basic elements of the 90/10 investment strategy:

- 1. Invest 90% of your liquid assets in a low-cost S&P 500 index fund (Buffett recommended <u>Vanguard's</u>). Buffett argues that stocks will continue to provide higher returns over the long run than bonds or cash.
- Invest the remaining 10% in short-term government bonds such as <u>U.S. Treasury</u>
  <u>bills.</u> This ensures liquidity (your ability to buy or sell with relative ease) while
  reducing your overall risk in market downturns.

The idea is to maximize long-term growth with the broad equities investment while maintaining a small cash cushion and minimizing the management fees that can eat up portfolio returns.

## Advantages of the 90/10 Strategy

The 90/10 strategy offers a number of benefits:

- Long-term returns. The S&P 500 has provided reliable long-term returns for almost a century, averaging about 10% a year before inflation.<sup>[3]</sup>
- **Limited risk.** While a 90% allocation to equities might make some investors a bit nervous, the risk is limited by the diversification provided by a broad index fund and the quality and size of its companies.
- Lower fees. Because of <u>compounding</u>, even slight differences in annual fees can add up to big differences in portfolio size over time—thousands or even tens of thousands of dollars on a modest initial investment. An S&P 500 index fund should keep fees to the bare minimum.
- Less time is needed. It doesn't get much simpler than 90/10. Rebalance quarterly or even annually, and you're good to go. No need to spend a lot of time considering different investments.
- Less stress. Many investors, especially those with less experience, struggle to manage the emotional roller coaster of investing in the market. While the S&P 500 has had its share of stomach-churning drops, owning such a big chunk of the market—as opposed to a portfolio of tech growth stocks—should help most investors sleep soundly. And so should knowing that the market has always moved higher over the long term.

## 90/10 Rule Compared With Traditional Allocations

Some investors and market analysts have questioned the wisdom of the 90/10 rule, including whether it makes sense for all investors, particularly those nearing retirement, which is an age when most people start dialing back on investments in equities. Others have noted that such a high allocation to equities may not be suitable for any investor who is deeply uncomfortable with volatility.

Javier Estrada, a finance researcher at IESE Business School in Barcelona, Spain, decided to put the strategy to the test. [4]

Estrada wanted to test how such an allocation would work during a 30-year retirement with an investor withdrawing 4% a year. His point was that retirees need an allocation that carefully balances the risk of the investor outliving the account versus spending so little that their lifestyle suffers.

The one change he made to the 90/10 rule was that the annual withdrawals would be made from stocks if stocks had gone up, and from bonds if they had gone down, giving the stocks time to recover. [4]

Using historical data, Estrada then ran a series of simulations testing the 90/10 rule—with that slight tweak—versus other allocation ratios. "Buffett's advice proves to be (unsurprisingly) not only simple but also sound," he wrote. [4]

That's because Buffett's 90/10 split puts your portfolio in a middle ground between the best-performing strategy for upside potential (100% stocks) and the best-performing for downside protection (60/40 and 70/30). <sup>[4]</sup>

#### The Bottom Line

Warren Buffett's <u>90/10</u> rule is a simple, low-cost strategy that aligns with his long-held belief in the power of the American economy and his skepticism toward the average professional money manager. By allocating 90% of assets to a low-cost S&P 500 index fund and 10% to short-term <u>government bonds</u>, investors can benefit from historically proven long-term market growth while maintaining a cushion for downturns.

Still, Buffett's approach may not be the best fit for all investors, particularly those who are already retired or nearing retirement—they'd have less time for the market to recover from any severe downturns. Investors with less tolerance for market gyrations may also be happier with a different allocation. Ultimately, though, Buffett's advice underscores a timeless investing principle: simplicity, patience, and controlling costs often outperform more complex strategies.

#### **ARTICLE SOURCES**

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- 1. Berkshire Hathaway. "2013 Letter to Shareholders." Page 20.
- 2. S&P 500 Indices. "SPIVA Reports."
- 3. NYU Stern Business School. "Historical Returns on Stocks, Bonds and Bills: 1928-2024."
- 4. Javier Estrada. "Buffett's Asset Allocation Advice: Take It ... With a Twist."