Adding BTC to a traditional 60/40 portfolio: the possible risk-return outlook

The proportionate rise in returns (CAGR), from the diversification effects of this rebalancing, may outstrip the proportionate rise in risk (standard deviation) leading to a higher Sharpe Ratio (risk-adjusted returns)

Sharpe Ratio = (CAGR - RFR)/ annualised standard deviation of returns

High-risk investor

- 100% position in BTC
- 0% position in stocks and bonds

Moderate-risk investor

- <60% position in stocks
- <40% position in bonds
- Some allocation to BTC

Low-risk investor

- 60% position in stocks
- 40% position in bonds
- 0% position in BTC

The proportionate fall in risk (standard deviation), from the diversification effects of this rebalancing, may outstrip the proportionate fall in returns (CAGR) leading to a higher Sharpe Ratio (risk-adjusted returns)