INVESTMENT MINIMALISM: THE LAZY PORTFOLIO STRATEGY VS. ACTIVE TRADING IN HIGH-VOLATILITY CONDITIONS

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Abstract. *This article provides a comprehensive comparative analysis of the effectiveness of two polar approaches to private capital management within the framework of Personal Finance Management: passive index investing (investment minimalism/"lazy portfolio" concept) and active medium-term trading. In the context of permanent turbulence and increased volatility in global financial markets, the explicit and latent costs of both strategies are examined. The authors provide a detailed analysis of transaction costs, tax burdens, and psychological triggers affecting retail investor returns. Drawing on modern portfolio theory, the efficient market hypothesis, and principles of behavioral economics, the paper mathematically and logically substantiates the benefits of minimizing investment actions.*

Keywords: *personal finance, investment minimalism, lazy portfolio, active trading, volatility, passive investing, behavioral economics, transaction costs, efficient market hypothesis, rebalancing.*

1. Introduction

The global macroeconomic landscape has been operating in a state of heightened turbulence in recent years. Geopolitical shocks, structural shifts in supply chains, unpredictable monetary policies of leading global regulators, and inflationary pressure have created conditions of permanent volatility in stock, bond, and commodity markets. In this reality, retail investor behavior is distorted: asset price fluctuations create a dangerous psychological illusion of the possibility of quickly extracting excess profits through short-term speculative transactions.

In the discipline of personal finance management (PFM), a fundamental dilemma arises in choosing a strategic course. On the one hand, the financial industry and media are actively promoting active trading (day trading, swing trading, and the use of derivatives) as a way to quickly respond to market changes. On the other hand, the academic community and adherents of classical portfolio theory advocate the concept of investment minimalism, implemented through the distribution of assets into “lazy portfolios” [2].

The relevance of this study stems from the fact that during periods of heightened market noise, retail investors frequently make cognitive and operational errors, leading to irreversible capital losses. A comparative analysis of passive and active strategies, taking into account modern fee structures, tax systems, and psychological factors, allows us to identify the most

sustainable savings and capital growth model for retail investors without professional financial analysis skills.

2. Methods and materials

The methodological basis of the study was a synthesis of the fundamental tenets of Harry Markowitz's Modern Portfolio Theory (MPT), the concept of diversification, and Eugene Fama's Efficient Market Hypothesis (EMH) in its semi-rigid form. A key element of the analysis was the theory of behavioral finance, which explains the destructive patterns of decision-making by economic agents under uncertainty.

The following served as the informational and empirical basis for the work:

1. Statistical data from long-term SPIVA (S&P Indices Versus Active) reports, regularly published by S&P Dow Jones Indices and reflecting the actual ability of professional managers to outperform benchmark market indices over various time horizons [1].

2. Historical data on the returns and standard deviations of index funds (ETFs) and diversified portfolios for the period 2024–2026 [3].

3. Modeling transaction costs and tax implications of frequent trading based on standard retail broker rates [4].

3. Research Results and Discussion

3.1. Architecture and Philosophy of "Lazy Portfolios"

Investing minimalism is based on a counterintuitive premise: maximizing intellectual and time effort in the stock market does not directly correlate with increased returns. The "lazy portfolio" strategy involves creating a rigidly fixed, diversified asset structure representing various asset classes (stocks of large companies, bonds, gold, money market instruments) through low-cost (low Expense Ratio) exchange-traded funds (ETFs).

There are several classic models of investing minimalism that have proven resilient in historical crises [1]:

• **Bogleheads Three-Fund Portfolio:** Consists of a broad-market US stock ETF, an international stock ETF (excluding the US), and a total market bond ETF.

• **Ray Dalio's All Weather Portfolio:** aims to minimize drawdowns by distributing capital across different economic seasons (30% stocks, 40% long-term government bonds, 15% medium-term bonds, 7.5% gold, 7.5% commodities).

• **The Lazybones Portfolio:** equal distribution of capital (33.3% each) between stocks, bonds, and gold.

The primary goal of a minimalist investor is regular portfolio replenishment (using the dollar-cost averaging method) and occasional rebalancing (once or twice a year) to restore the initial target asset allocations.

3.2. Mathematical and Operational Barriers to Active Trading

Active trading is promoted by its proponents as a flexible tool that allows one to shift to defensive assets during market declines and profit from the rise of individual sectors. However, in highly volatile environments, this strategy faces hidden costs that mathematically destroy profitability over the long term.

1. Transactional Capital Erosion. Each trade involves a brokerage commission, an exchange fee, and, critically important in a volatile market, the overcoming of wide spreads (the difference between the buy and sell prices). With intraday trading or active swing trading, these micro-costs, due to the frequency of trades, accumulate a cumulative loss of 3% to 7% of the portfolio annually. A passive investor pays a commission only a few times a year when replenishing funds.

2. Fiscal Burden (Tax Factor). Russian and international tax laws require the taxation of recorded gains. A passive investor enjoys tax benefits for holding securities (or IRAs) for the long term, deferring tax payments for decades and allowing the "dirty" profits to compound. A trader, on the other hand, records profits regularly, paying annual income taxes (Capital Gains Tax), which significantly slows the exponential growth of capital.

3. The Market Timing Paradox. Successful trading requires two key decisions: when to exit an asset and when to reenter it. Academic research (including reports from index leader Vanguard) demonstrates that the bulk of market growth occurs in bursts over a period of several days, often immediately following deep declines. A trader who panics and enters cash misses these days. Missing just the 10 most profitable days in the market over a 10-year period reduces the final portfolio return by more than 50% [4].

3.3. Comparative analysis of strategies

For a visual comparison of the fundamental parameters of the two approaches, the authors have created a comparison matrix (Table 1).

Table 1. Comparative analysis of passive minimalism and active trading in high volatility conditions

Comparison criteria	**Investment Minimalism (Lazy Portfolio)**	**Active Trading (Speculative Strategy)**
Time costs	Low (1-2 hours per month for replenishment and audit).	High (2 to 8+ hours daily for monitoring and analysis).
Influence of volatility	Reduces average purchase cost through regular investing (DCA).	Increases the risk of liquidating positions and making impulsive trades.
Dependence on human factors	Minimal (actions are algorithmically guided by a rigid structure).	High (decisions are made emotionally).
Efficiency according to SPIVA data	Historically, it has outperformed more than 85-90% of active managers over a 10-year horizon.	Less than 5% of retail traders demonstrate consistent profits above the index over the long term.
Tax optimization	High (due to deferred taxes and long-term holding benefits).	Low (regular profit-taking and tax payments).

3.4. Psychological Aspect and Behavioral Biases

High market volatility is a powerful trigger for destructive financial behavior in retail investors. Behavioral economics identifies the following biases:

• **Illusion of Control:** A trader believes that technical analysis or reading news feeds allows them to predict chaotic price movements in a volatile market. In reality, short-term fluctuations represent a "random walk."

• **Confirmation Bias:** Having opened a speculative position, an investor begins to notice only those analytical materials that confirm their correctness, ignoring warning signs.

• **Loss Aversion and the "Disposition Effect":** According to D. Kahneman's prospect theory, investors tend to sell profitable assets too early (to lock in the joy of winning) and hold deeply unprofitable speculative positions for too long (in hopes of recouping), which, in volatile conditions, leads to margin calls.

A "lazy portfolio" psychologically protects the investor. Knowing that the portfolio is diversified globally and has historically recovered from any crisis allows one to ignore short-term price declines and maintain composure [5].

4. Conclusion and Practical Recommendations of PFM

The conducted analysis convincingly proves that, in conditions of high volatility, the investment minimalist strategy ("lazy portfolio") offers undeniable mathematical, operational, and psychological advantages over active trading for the vast majority of retail investors. Attempts to beat the market during periods of turbulence lead to increased transaction and tax costs, as well as destructive emotional burnout.

To successfully integrate investment minimalist strategies into Personal Finance Management practices, we recommend implementing the following step-by-step algorithm [3]:

1. Forming a strict asset allocation profile (Asset Allocation): Determine the proportion of stocks and bonds based on the investment horizon and personal risk tolerance (e.g., the classic "110 minus age" rule for the proportion of stocks).

2. Selecting broadly diversified instruments: Use funds with minimal management fees (TER < 1%) that cover entire markets (e.g., the MSCI World Index or the Moscow Exchange Total Return Index).

3. Infrastructure automation: Set up automatic transfers of a fixed portion of monthly income (e.g., 10-15%) to a brokerage account immediately on salary day.

4. Calendar rebalancing: Conduct asset balances according to a strict schedule (e.g., every first business day of December). If the share of stocks has fallen due to the crisis, the investor repurchases them during the rebalancing, implementing the most effective economic principle: "buy low, sell high."

References

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