

December 11, 2025

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## Long-Term Stability in an Unstable World

*A Scientific Framework for Global Investors in Germany*

### 1. The New Reality of Zero Interest Rates

The classical rule of modern finance—“higher returns require higher risk”—is increasingly misleading for long-term investors. Andreas Beck’s analysis demonstrates that, in a zero-interest-rate environment, **traditional risk management systematically destroys returns**. Over the last 30 years, falling bond yields masked this problem: price gains from government bonds compensated for weak equity exposure. That era is over.

With risk-free returns near zero and inflation persistent, the **tolerance for systematic underperformance must be zero**.

Beck’s data show that conventional risk controls—reducing equity exposure after losses and increasing it after gains—produce cyclical buying high and selling low. Backtests reveal that this behavior explains **most of the performance gap between active managers and passive benchmarks** over multi-decade periods.

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## 2. From Short-Term Volatility to Long-Term Capital Efficiency

Traditional risk metrics such as *Value at Risk* or short-term volatility were designed for banks closing positions over days or weeks. They are meaningless for investors with 20- or 30-year horizons.

Beck instead proposes a **capital-efficiency metric**: *return on invested capital (ROIC)*. Compound growth, not volatility, determines long-term financial security.

A portfolio's safety therefore stems from its **ability to recover**—its resilience of earnings and reinvestment capacity—not from minimizing temporary fluctuations.

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## 3. The Concept of Ultrastability

Beck extends systems theory into finance. In cybernetics, *ultrastable systems* adapt to shocks by reorganizing themselves into new, functioning equilibria rather than collapsing. The global economy, seen as a network of companies competing for capital, displays precisely this behavior.

Crises eliminate weak firms (“creative destruction,” Schumpeter) and increase long-term profitability among survivors.

The implication:

The **world economy as a whole is ultrastable**—it survives and adapts through crises, even though individual companies perish.

Hence, **broad diversification across thousands of companies** is the only structure that fully benefits from this systemic property. Selective, concentrated portfolios are not ultrastable—they depend on predicting which firms will survive the next shock.

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## 4. Designing an Ultrastable Portfolio

Beck models a portfolio covering **98 % of the world's equity capital**—roughly 6 000 companies—weighted not only by market capitalization but also adjusted by profitability (*return on equity*). This avoids concentration in overvalued regions (e.g., the U.S. during tech bubbles) and redistributes exposure toward higher-efficiency economies.

The result is a **globally diversified equity base**, complemented by safe bonds as “investment reserves” that can be deployed anticyclically when equity capital becomes scarce during crises.

Empirical backtests from 1959 to 2019 show that this **anticyclical adjustment** adds a persistent **0.6 % annual outperformance** versus a constant 80/20 benchmark.

Over any 15-year period—including major crises such as 2002 and 2008—the dynamic strategy outperformed the static portfolio in **100 % of cases** (see Table 1 and Figures 1–3 in the study).

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## 5. The Anticyclic Factor: Profiting from Fear

The study formalizes an “**Anticyclic Factor**” that increases equity exposure during panic and reduces it during euphoria. Using regime modeling:

- **Regime A:** Normal markets → 80 % equities
- **Regime B:** Equity scarcity → 90 % equities
- **Regime C:** Crisis escalation → 100 % equities

Transitions are triggered by > 20 % market drops, surges in volatility, or widening credit spreads. Over 60 years, this disciplined timing produced not only higher returns but **lower long-term risk**, since the portfolio accumulated shares at favorable valuations and reinvested in recovery phases.

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## 6. Empirical Evidence: The 2002 and 2008 Crises

Backtests using global market proxies (MSCI World and ACWI) show that the anticyclic model's relative return grew **most strongly during recessions**. In the 2008 crisis, when static 80/20 portfolios lost ~40 %, the ultrastable model's subsequent 15-year cumulative return exceeded +200 %, versus ~160 % for the benchmark.

Beck's simulation of all rolling 15-year windows found that even with extreme crises, **95 % of outcomes still compensated for inflation and taxes**—a statistically remarkable level of robustness.

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## 7. Return on Capital and the Economics of Fear

Corporate profitability (*Return on Equity*) remains remarkably stable: typically 10–15 % globally, even through recessions. In contrast, stock prices swing violently as investor sentiment oscillates.

By comparing smoothed ROE with price-to-book ratios, Beck identifies the best entry points—where the market undervalues productive capital by more than 30 %.

For example:

- In 2009, average global ROE = 14 %, P/B = 1.0 → expected investor return ≈ 14 % p.a.
- In 2019, ROE = 12 %, P/B = 3.5 → expected investor return ≈ 3–4 % p.a.

Thus, crisis periods mathematically deliver the highest *future* returns, contradicting the emotional instinct to reduce risk exposure.

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## 8. Credit Spreads as Early Warning Indicators

The study correlates credit spreads (corporate bond yields vs. government bonds) with expected equity returns:

- Correlation = 0.80 (USA) and 0.84 (Europe) between spreads and equity capital profitability from 2001–2019.  
When BBB-rated spreads widen sharply—as in 2002 and 2008—future equity returns surge correspondingly.  
Expats monitoring these indicators can identify when to **increase equity allocations** with confidence in systemic recovery.

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## 9. Comparison: Ultrastable Strategy vs. Active Mixed Funds

Using 20 years of data (1998–2019), Beck compared ultrastable portfolios with aggressive global balanced funds (Morningstar EUR Aggressive Global). Results:

Metric	Ultrastable Strategy	Aggressive Funds
Annual Return	<b>6.46 %</b>	2.73 %
Volatility	12.8 %	9.9 %
Max Drawdown	-44 %	-41 %
Recovery Time	5.3 yrs	6.7 yrs

Despite higher short-term volatility, the ultrastable approach achieved **+3.7 % annual excess return**, recovering faster and compounding wealth roughly **3× faster** than the peer group.

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## 10. Why It Works: Systemic vs. Idiosyncratic Risk

Beck's framework reframes *risk* as **systemic adaptation capacity**, not short-term loss probability.

The global economy's ultrastability means it **self-organizes after crises**—while individual firms or sectors may collapse, aggregate profit levels revert to the mean.

Therefore, the rational expat investor should:

- Own the **whole system** (global equity index, 6000 firms).
- Accept short-term volatility as the *price* of long-term certainty.
- Rebalance anticyclically, not reactively.
- Avoid expensive or opaque products that suppress volatility at the cost of compounding loss.

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## 11. Implications for Expats in Germany

For expatriates, these insights are critical. German financial culture remains conservative—bank deposits and insurance contracts dominate, with minimal equity ownership.

Yet with risk-free yields near zero and inflation near 2–3 %, the **real return on deposits is negative**. Only diversified global equity exposure can realistically fund retirement goals.

An ultrastable, anticyclic strategy allows expats to:

1. Build wealth globally while residing in Germany.

2. Protect purchasing power against euro-specific risk.
3. Benefit mathematically from global economic adaptation rather than fear cycles.

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## 12. Quantitative Summary

Parameter	Static 80/20	Ultrastable (Anticyclic)
Expected Return (p.a.)	6.0 %	6.6 % (+0.6 %)
15-Year Inflation-Adjusted Win Rate	82 %	100 %
Crisis-Period Drawdown Recovery	7 yrs	< 5 yrs
Global Equity Coverage	1 600 firms	6 000 firms

These results show that **systematic discipline outperforms tactical flexibility**—a rare empirical conclusion confirmed by six decades of data.

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## 13. Conclusion: Rational Optimism as a Strategy

For expats building retirement capital in Germany's low-yield world, Beck's findings lead to a clear, scientific principle:

**“Long-term safety emerges not from avoiding risk, but from accepting it systematically through globally diversified, anticyclic participation.”**

In an ultrastable global system, crises are not threats—they are opportunities for capital efficiency.

Mathematically, fear is overpriced and patience is under-rewarded.



By embracing the logic of ultrastability, expats can achieve what short-term traders cannot:  
*statistical certainty through disciplined exposure.*

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**Sources:**

Beck, A. & Ritter, A. (2019). *Ultrastabilität: Risikomanagement für die lange Frist*. Institut für Vermögensaufbau (IVA) AG.

Data: MSCI ACWI 1959–2019; Morningstar Aggressive Global EUR Funds; OECD and Federal Reserve Data.

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