1+1 Doesn't Equal 2!

Protecting the Value of Your Portfolio

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In the world of investing, the numbers can sometimes lie. Let's say you have a portfolio of stocks with an initial value of $1,000,000. In year one the investments you own increase in value by 10%, and in year two they lose 10%. No worries, you are back to where you started right? Not so fast, most investors assume that a 10% gain and a 10% loss offset each other, when in reality your portfolio is negative. When you make 10% your portfolio goes to $1,100,000, then when you lose 10% the portfolio falls to $990,000. Even though your average return is 0%, your actual performance is negative. Furthermore, the larger the swings, the greater the losses - If you make 30% then lose 30%, your portfolio is now down to $910,000! Result - you have to make an additional 10% return just to get back to your initial $1,000,000.

What's the moral of the story – protecting the downside losses to your portfolio can be more important than capturing maximum upside returns. The big question – How is this best accomplished? Traditionally, investors have used bonds to help cushion the losses of a bad market. However, in some cases like 2008, both stocks and bonds fell significantly in value. In addition, bonds are currently trading at their highest historical price due to interest rates being at all-time lows. If interest rates go up, this will negatively impact bond values and the perceived 'safety' in bonds could be at risk. This can really limit the ability for bonds to effectively protect portfolios.

A potential solution is having a protected portfolio. Within a protected portfolio, a portion of the account is invested in instruments that directly protect against potential losses of the portfolios investments, while at the same time reducing the overall risk. The allocation is designed to capture around 60-70% of the upside in a bull market (when markets are growing) while only capturing 20-30% of the downside. The end result – less volatility, reduced risk, and more security on your retirement income and investment assets. Historically, these types of portfolios were only available to institutions with well over $100M in assets, however, today, options exist for individual investors as well. It is essential to discuss your investment options with an expert advisor, and we welcome the opportunity to talk through your personal objectives in more detail.

** Prior to investing, you should consult a financial advisor and read all available information. The examples given are hypothetical, for illustrative purposes only. The product features mentioned must be sold by prospectus and carry investment risk.*