

WHY DOWNSIDE PROTECTION?

Market declines are an inevitable part of investing and the primary reason many investors seek downside protection strategies for their portfolios. Such losses represent a threat to a portfolio's long-term returns since:

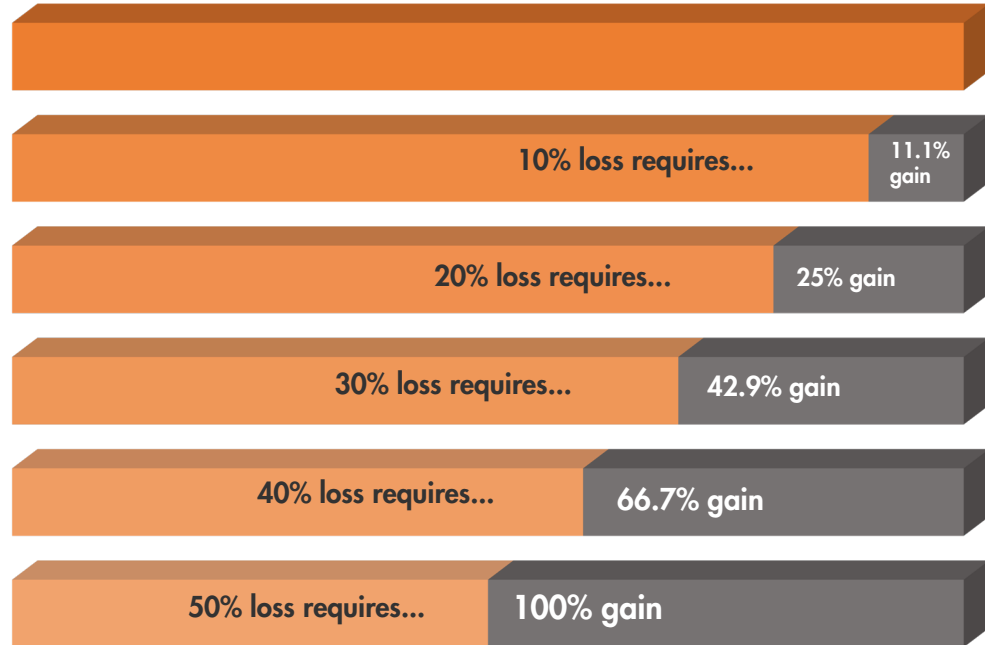
- Greater positive returns are needed to overcome the decline
- Market declines erode the power of compounding
- Recovery may be more difficult during a withdrawal phase (such as retirement) because the new investment base is lower.

Illustration 1 shows the returns you would need to recover from various levels of market declines. For example, if a portfolio started with an initial investment of \$1,000 and subsequently lost \$100 (a 10% decline) the portfolio would need an 11.1% gain to return to its original value. Likewise, if a portfolio suffered a \$200 loss (20% decline), it would need a 25% return on the new \$800 value to recover the loss. A 50% loss requires a whopping 100% performance return to recover.

As you can see, the absolute percentage return needed to recover a loss is *more than* the absolute percentage loss. The greater the loss, the percentage return needed to recover the losses increases significantly. When one considers that market pullbacks and corrections are a necessary and normal part of market cycles, the need to balance upside capture with downside loss minimization becomes clear.

Illustration 1: Returns necessary to recover from market downturn.

Portfolios that lose less during periods of market declines generally have a greater ability to recover the losses. Compounding power is less impacted leaving the portfolio in a potentially better position when markets rebound.



The above graph is not indicative of the performance of any AAM product and is designed for educational purposes only and should not be used to predict security prices or market levels.

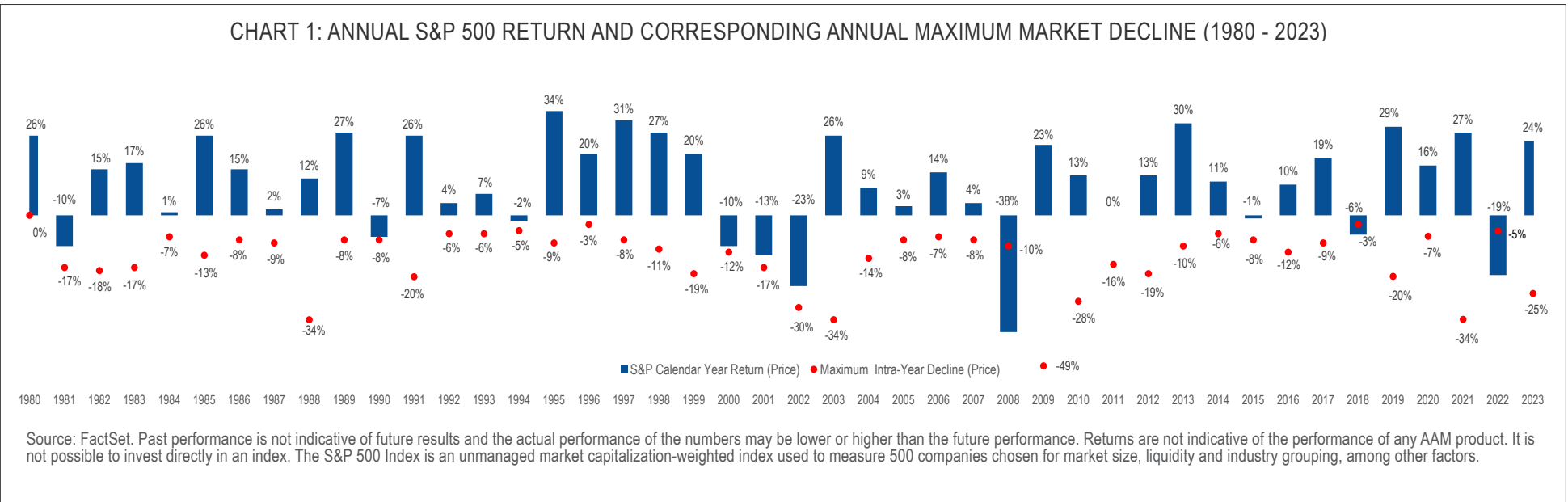
LOSS MINIMIZATION

Downside protection strategies seek to limit the impact and magnitude of losses during market declines. By not incorporating downside protection strategies, a portfolio is potentially left vulnerable to significant market declines which, in turn, require greater future returns to get back to the initial portfolio value.

Chart 1 below depicts annual returns of the S&P 500 along with the maximum decline in each year. It is clear that even in years with a positive return, the market experienced periods of decline, some considerable. For example, 1987, 2002, 2008 and 2020 saw some of the largest market setbacks during this period. A portfolio that was positioned with investments offering downside protection could have potentially offset some of the losses during these difficult periods.

WHO AND WHEN?

We believe downside protection should be considered by investors who want to **preserve capital**, **accumulate capital** or are in a **withdrawal phase**.



The best time to incorporate a downside protection strategy is *before* a market crisis. Waiting can be costly as, oftentimes, it is too late to reap the maximum benefits. For more information visit www.aamlive.com or contact a financial professional.

This publication is provided for information purposes and does not pertain to any security or service and is not an offer or solicitation of an offer to sell any product or service. Unless otherwise stated, all information and opinions contained in this publication were produced by Advisors Asset Management, Inc. (AAM) and other sources believed by AAM to be accurate and reliable. Due to rapidly changing market conditions and the complexity of investment decisions, supplemental information and other sources may be required to make informed investment decisions based on your individual investment objectives and best interests. All expressions of opinions are subject to change without notice. Nothing contained herein constitutes investment, legal, tax or other advice. This should not be construed as a solicitation.

©2024 Advisors Asset Management, Inc. All rights reserved. 18925 Base Camp Road • Monument, CO 80132 • www.aamlive.com CRN: 2022-0325-9892 R Link 8085 | ML22-003709

