Downside protection

Investment Team Weekly Focus

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Downside Protection

Why protecting the downside is a no brainer

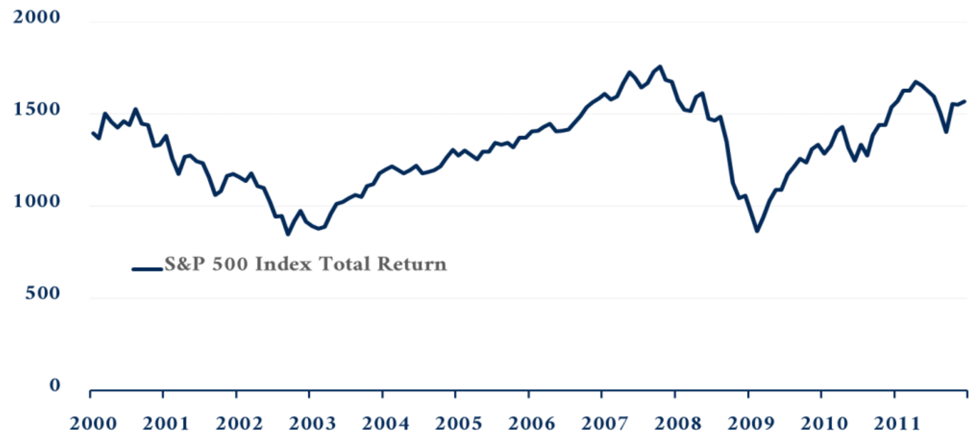
An investor recently asked, *"why is it so important to protect the downside?"*. To be fair, an investor holding good assets and with a very long-term horizon should do reasonably well as embodied by Warren Buffet. Our answer to the investor was twofold:

- First, long only investors take the risk of facing long periods of poor performance. The IRR for the S&P 500 Index was a paltry 1% between January 2000 and December 2012(top chart). Worst, it took 14 years for the Nasdaq 100 Index to get back to its 2000's peak. Quite a painful mistake.

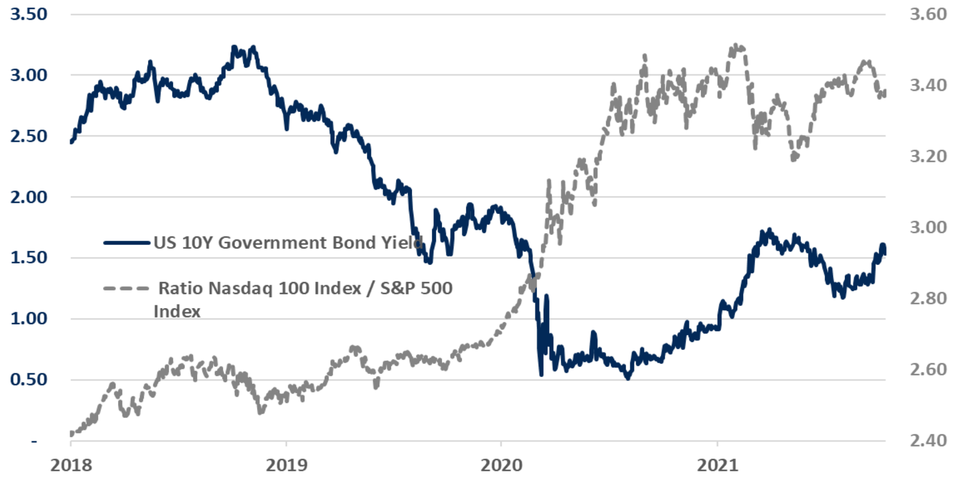
- The second reason is because it is probably about time. Technology stocks are highly sensitive to interest rates as illustrated in the bottom chart. Since inflation seems to be the only discussion in town, higher rates are likely to derail growth stocks. And because of the large weight of these particular tech stocks in most indices, we anticipate more volatility in the coming quarters.

Source: Lighthouse Canton, BCA Research 14th October 2021

Graph #1: Poor performances can be decade long



Graph #2: Tech stocks are sensitive to interest rates



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