SWAN GLOBAL INVESTMENTS

ARM YOUR PORTFOLIO AGAINST VOLATILITY

How to Mitigate the Risk of Large Losses during Unforeseen Market Events

Traditional approaches to portfolio construction – like the 60/40 model – leave investors vulnerable to black swan events and bear markets that could be right around the corner.

Popular misconceptions have led intelligent, rational investors to take crucial missteps in their portfolios, leading to a significant loss of wealth...

MISCONCEPTION #1

Black Swan events and Bear Markets are rare.

The term 'black swan' implies that extreme market events are few and far between. Unfortunately, we have seen five major market meltdowns in the past two decades:

- The dot-com bust in 2000
- The September 11th attacks in 2001
- The Great Financial Crisis in 2008
- The Chinese 'hard landing' of 2015
- The COVID-19 Pandemic of 2020

Bear markets can happen in the blink of an eye. The 2020 COVID-19 pandemic managed to put an end to the longest Bull Market in history in just a matter of weeks.

S&P 500 data shows that, on average, bear markets:

- 3.5 YEARS — occur every 3.5 years
- 10 — Last 10 months
- Erase over 35% of market value
- 3.3 YEARS — Take 3.3 years to recover

Source: Bank of America Merrill Lynch, Global Research, Bloomberg. Returns based on S&P 500

Bear markets and extreme market events are a natural part of investing.
Assuming that they are rare or won't happen can be detrimental to financial plans, as it only takes one major loss to undo years of compounded gains.

MISCONCEPTION #2

I can see a bear market coming and get out before it hits.

In theory, getting out of the market before it takes a turn for the worse is a great way to preserve capital and avoid losses.

In practice, market timing is nearly impossible to successfully and consistently execute over a long period of time.

During the Great Financial Crisis (GFC), the majority of active managers lost over half of their value in a very short time frame.

This shows how many domestic equity* managers were able to actively limit losses during the GFC.

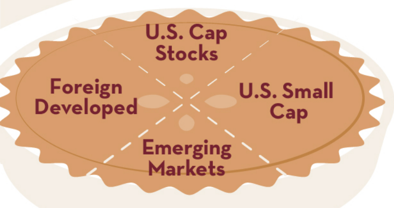
The vast majority of fund managers suffered losses between -50% and -60%.

Maximum Drawdown Range of Outcomes	# of Domestic Equity Managers
0% to -20%	1
-20% to -35%	5
-35% to -50%	175
-50% to -60%	1,165
More than -65%	105

Swan Global Investments, Morningstar. Data refers to the Great Financial Crisis, Oct 2007 - March 2009.

MISCONCEPTION #3

Diversifying across asset classes helps effectively manage risk.



By investing in different assets, the expectation is that the assets are uncorrelated enough to offset losses from one another during times of market stress.

However, it became evident after the GFC that investors were utilizing investment styles and asset classes that were simply smaller slices of the same pie—rather than truly different, uncorrelated assets.

Diversification only works if the return patterns are truly different. When it comes to mitigating market risk, diversification alone is not enough.

Arm Your Portfolio with a Hedged Strategy

Even though market risk cannot be diversified away, it can be hedged against.

INVESTOR INSIGHT
Hedging reduces or directly offsets risk in one asset with another, specifically one that is not correlated (doesn't move up/down at the same time).

Hedging has three major benefits

- **TRANSFER RISK** to uncorrelated positions
- **REDUCE IMPACT** of volatility & bear markets
- **OFFSET LOSSES** during major market events

A hedging strategy that employs put options can:

- Help define the amount of risk one is willing to take
- Provide sufficient diversification as put options are inversely correlated to the asset they seek to protect
- Reduce the damaging impact of major market events and protect against the possibility of catastrophic loss

The Defined Risk Strategy (DRS): Capitalizing on Bear Markets

Our time-tested strategy is a goals-based hedged equity approach that is Always Invested, Always Hedged.

The Defined Risk Strategy is designed not only to navigate bear markets, but also to capitalize on them by:

1. Helping investors limit losses when equities fall as our hedge rises in value
2. Employing a "sell high, buy low" process of re-hedging:
   - Sell what becomes a high value hedge
   - Buy equity at low prices and a new hedge

Equity
Always Invested passively in equities, using low-cost ETFs for portfolio growth

Hedge
Always Hedged using put options to mitigate risks of bear markets

Options
Actively managed shorter-term options portfolio to generate additional return and offset the cost of the hedge

While each bear market is unique, the Defined Risk Strategy seeks to help investors mitigate losses and capitalize on market downfalls to improve long-term results.

KEY TAKEAWAY

Seek to Mitigate the Risk of Large Losses During Bear Markets & Capitalize on Unexpected Market Downfalls by Employing Options-Based Hedging Strategies

Markets can be unpredictable and timing them is nearly impossible.

With a strategy that effectively mitigates risk, investors may be better prepared for unexpected downturns and sell-offs.

We believe staying Always Invested in equities and Always Hedged can help investors navigate and even capitalize on bear markets to improve long-term results.

For more on protecting your portfolio with hedged equity solutions, visit:
https://www.swanglobalinvestments.com/hedged-equity

250-SGI-062620