



## Portfolio Construction

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### Ahead of the Curve: Time to Embrace Downside Risk

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Buying equity index put options in order to reduce the downside risk of an equity portfolio (while maintaining the upside exposure) certainly sounds appealing. We all would like to avoid the discomfort felt during market downdrafts.

Sadly, it is not so easy. Because so many investors want to avoid that discomfort, the price of buying put options is high — to the point of eliminating the upside.

The good news is that this presents an opportunity for long-term investors willing to embrace downside risk. It may sound risky to actively seek out concentrated downside exposure, but insurance companies do it all the time, accepting the risk of potentially large losses for moderately sized insurance premiums.

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