P O R T F O L I O   R I S K   A N D   P E R F O R M A N C E

Should Your Portfolio Protection Work Fast or Slow?

Q4 2022

We have often argued that investments that perform well in protracted market drawdowns may be more valuable than ones that perform better during sharp crashes.[1] This year's drawdown, among the more persistent in recent memory, provides a clear picture for the types of strategies can actually deliver in a "slow burn."

While some options-based strategies have generated positive returns, in many cases they have disappointed in terms of magnitude. In contrast, trend following strategies have generally posted very strong returns (consistent with what we've documented in previous market drawdowns and crises). Looking ahead, many of the macro conditions that have been advantageous to trend following are still in place—and have historically tended to persist.

About the Portfolio Solutions Group

The Portfolio Solutions Group (PSG) provides thought leadership to the broader investment community and custom analyses to help AQR clients achieve better portfolio outcomes.

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[1] This can be shown empirically by comparing two equally bad "probability events" of different lengths (e.g., the 5th percentile worst month compared to the 5th percentile worst year)—the longer-lived drawdowns are more likely to prevent investors from reaching their multi-year return objectives. For more discussion on this topic, see McQuinn et al (2020).

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