DC Solutions Series: Defensive Equity, Part 1

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Over a 40-year working life, Defined Contribution (DC) savers try to maximize two basic investment outcomes: wealth accumulation and wealth preservation. However, these objectives present a basic tradeoff: for many retirement savers, the investments designed to promote wealth accumulation (equities) are different than the investments designed to promote wealth preservation (e.g., cash, bonds). Defensive equites seek to provide a "best of both worlds", by delivering the equity risk premium to achieve wealth accumulation, but by investing in less-risky equity securities to promote wealth preservation.

In part one of this two-part series, we focus on the intuition behind defensive equity and present evidence for its efficacy. In part two, we focus on the implementation of a defensive equity strategy within the context of a defined contribution retirement plan.

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