

Gyrostat November Outlook: The rising cost of doing nothing

Through the second half of 2025, markets have delivered a curious mix of surface tranquillity and instability beneath. August brought low index volatility alongside rising single-stock dispersion. September reinforced this divergence as concentration risk increased. October saw option markets quietly reprice protection even as headline indices stayed calm.

Now, November has pushed these undercurrents into clearer focus. Risk pricing has firmed, stock price movements have become more erratic, and a modest downside bias has emerged. For most accumulation-stage investors, these developments may feel remote. But for retirees where withdrawals amplify drawdowns and longevity risk compounds, the shift is both meaningful and immediate.

The core message is simple: **doing nothing is no longer a neutral choice. It is itself a risk position.** And for lower-risk retirees, it is increasingly the wrong one.

The deeper issue is behavioural. Advisers and investors are often anchored to the familiar logic of the accumulation phase: stay invested, average in, stay patient. But once withdrawals begin, the mathematics change. Losses early in retirement can permanently impair outcomes, even if markets eventually recover. Dollar-cost averaging becomes impossible, and sequence-of-returns risk becomes structural.

This November, rising protection costs and elevated volatility serve as a clear reminder: **retirees cannot afford accumulation-era thinking in a decumulation-era world.**

The real issue isn't the market — it's the choices retirees are given

Most retirees, whether explicitly or implicitly, face four choices:

1. Do nothing — stay in accumulation mode (the default for many)

This is the path of least resistance: remain largely in equities, have little or no protection, and assume long-term returns will compensate for short-term losses.

For retirees, this is the most dangerous option.

Sequence-of-returns risk means that even modest early drawdowns can become permanent when withdrawals are occurring. Once capital leaves the portfolio during a downturn, it cannot participate in the rebound.

Doing nothing feels safe, but it is a **highly exposed risk position** for retirees.

2. Build your own protection (DIY hedging)

Retirees and most advisers are not derivatives desks. Managing puts, selecting strikes, rolling protection, and deciding whether to monetise hedges or extend duration requires a specialised, continuous decision-making framework. Without that system, DIY protection often delivers an inconsistent outcome or erodes its own value.

3. Add Absolute Return Income Equity Fund for scenario diversification (but keep the same core portfolio)

This option changes the **structure** of market exposure rather than adding overlays or timing decisions.

Risk-managed absolute return equity funds — such as Gyrostat Class A and Class B — diversify by **scenario**, not by style or sector. They maintain equity-linked return potential but with defined risk bounds, controlled drawdowns, and an ability to benefit from periods of elevated volatility.

For risk-averse investors, replace a portion of passive long-only equity with scenario-diversifying strategies to blend managers and approaches for a more stable outcome.

Gyrostat Class A — Risk-Managed Equity (flagship)

- No quarterly loss >3% over 14 years (3-yr max quarterly drawdown: -1.26%, source: FE Analytics)
- Increases in value during major market falls, by design
- Absolute-return profile that benefits from elevated volatility

This is not about market timing — it is about **altering the resilience of the underlying return engine**.

We elaborate on this framework in *Risk-Managed Investing: A Structured Guide from Accumulation to Retirement*. <https://www.gyrostat.com.au/news/risk-managed-investing/>

Gyrostat Risk Managed Equity Fund Performance Report – Class A and Class B Absolute Returns at 31 Oct 2025

Class	1yr	2yr p.a.	3yr p.a.	4yr p.a.	Max Qtr Loss (3Yr)	Beta
A	+8.39%	+8.83%	+7.41%	+10.65%	-1.26%	-0.08
B	+9.44%	+10.82%	+9.22%	+13.36%	-0.84%	-0.22

4. Appoint a manager who can deliver dynamic, low-cost structural protection

For retirees who prefer to retain their existing portfolio structure, the next option provides protection without selling assets. Downside protection overlay is managed by a specialist firm such as Gyrostat.

The overlay is a rules-based, options-based protection strategy designed to reduce the impact of major market declines while still allowing the portfolio to participate in market growth.

This is not market timing — it is risk engineering.

It allows retirees to remain invested without being exposed to the full force of downside events.

Current market backdrop

With stock price movements becoming more erratic, the cost of protection has begun to rise. Volatility indices, the market's primary barometer for pricing uncertainty, now reflect a shift from the unusually calm conditions of recent months to a more cautious stance. In simple terms, when volatility measures climb, it signals that markets are assigning a higher premium to insurance against downside risk. It is the financial system's way of expressing that uncertainty is increasing.

VIX – S&P 500 implied volatility



Source: Bloomberg / Google Finance (data as at 21 November 2025)

Translating volatility into portfolio protection costs

The VIX index reflects the market's expectation of volatility, and by extension, the cost of protection. When volatility is subdued, protection is inexpensive; when volatility surges, the cost of cover rises sharply and availability narrows.

One way to translate this into practical terms is to express protection as a percentage of the portfolio value being insured. The cost depends on the chosen duration and the level of loss the investor is willing to tolerate before compensation begins.

S&P 500 Protection pricing: duration vs excess – at 21 November

S&P500 Index				000's			
Underlying portfolio to protect:	\$100 M	USD		100,000			
Date today:				21-Nov-25			
S&P500 index level:				6,549			
Excess				2.5%	5.0%	7.5%	10.0%
Index level				6,386	6,222	6,058	5,894
Current market costs of protection							
	Expiry	Days					
	19-Mar-26	118	Cost 000's	3,204	2,551	1,918	1,286
			%	3.20%	2.55%	1.92%	1.29%
	19-Mar-26	118	Cost 000's	3,220	2,559	1,920	1,280
			%	3.22%	2.56%	1.92%	1.28%
	17-Jun-26	208	Cost 000's	4,337	3,447	2,585	1,724
			%	4.34%	3.45%	2.59%	1.72%
	17-Sep-26	300	Cost 000's	5,279	4,196	3,147	2,098
			%	5.28%	4.20%	3.15%	2.10%
	17-Dec-26	391	Cost 000's	6,029	4,793	3,594	2,396
			%	6.03%	4.79%	3.59%	2.40%

Source: Gyrostat analysis of S&P 500 option pricing (as at 21 November 2025)

For example, at 21st November 2025 protecting a \$1 million S&P 500 portfolio until 17th September 2026 with a 10% hard floor at the 5894 level would cost approximately 2.1% (~\$21,000).

In contrast, at the time of publication last month on 17th October the 10% protection level was higher at the 5969 and less expensive at 2.0% (~\$20,000).

Outlook – a wake-up call to reassess approach

Looking ahead, the rise in volatility and protection costs should not be seen as a signal to retreat, but rather as a strategic opportunity for retirees to reassess their approach.

Higher volatility increases the importance of having a defined protection process. Rising hedging costs highlight the need to secure protection early. And the re-emergence of downside risk should serve as a **wake-up call** from the complacency of recent years.

For retirees and conservative investors, **financial peace of mind is not a market outcome — it is an engineering outcome.**

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