

What advisers misunderstand about protection

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Protection is rarely rejected outright. More often, it is misunderstood.

Most advisers recognise the value of protection in principle. They understand its role during market stress and acknowledge its importance for clients who cannot afford large drawdowns. Yet in practice, protection is frequently applied too late, removed too early, or framed as a tactical response rather than a structural feature of portfolio design.

This is not a failure of intent. It is a misunderstanding of what protection is meant to do.

Why protection is treated as tactical

In many portfolios, protection is approached as a short-term decision. It is added when volatility rises, scaled back when markets calm, and justified by reference to near-term risks.

There are understandable reasons for this. The cost of protection is visible. Its benefits are conditional. During calm markets, protection can feel unnecessary, uncomfortable, or difficult to explain. Advisers are often under pressure to remain fully invested, avoid performance drag, and demonstrate confidence when markets appear stable.

As a result, protection is frequently framed as a response to fear rather than a component of design.

The cost fallacy

One of the most persistent objections to protection is cost.

Protection is often judged by its carry rather than by its function. When markets are rising and volatility is low, the absence of immediate benefit can make protection appear inefficient. Yet this framing overlooks the far larger costs that emerge when portfolios are forced to respond under stress.

The true cost of inadequate protection is rarely a line item. It appears as:

- forced selling during drawdowns,
- impaired income sustainability,
- reduced flexibility at precisely the wrong time,
- and heightened behavioural pressure on both advisers and clients.

Protection tends to feel most expensive when it is least needed — and most valuable when it is hardest to obtain.

Protection as architecture, not opinion

The central misunderstanding is this: protection is often treated as a market view.

In reality, protection is a design choice.

Properly implemented, protection does not rely on predicting market outcomes. It does not require calling peaks or avoiding volatility altogether. Instead, it operates continuously, quietly shaping how portfolios behave when conditions deteriorate.

Protection as architecture focuses on:

- limiting the severity of losses,
- preserving liquidity,
- maintaining the ability to rebalance,
- and ensuring portfolios remain functional under stress.

It is not an expression of pessimism. It is an acknowledgment of uncertainty.

Why protection matters most in retirement

For retirees and investors approaching retirement, the role of protection changes fundamentally.

Accumulating investors can often recover from losses given sufficient time. Retirees cannot. Early drawdowns permanently alter income paths, compress recovery windows and increase the risk that portfolios fail to meet their intended purpose.

This is the reality of sequencing risk. Losses are not merely uncomfortable; they are irreversible in their consequences.

In this context, protection is not a tactical preference. It is a fiduciary responsibility. The adviser's role shifts from maximising returns to stewarding outcomes that must endure across uncertain market regimes.

The behavioural paradox advisers face

Protection presents a paradox.

It feels hardest to justify when markets are calm and confidence is high. Yet those are precisely the conditions under which protection is most available and most affordable. When stress finally arrives, protection becomes reactive, expensive, or unavailable altogether.

Waiting for confirmation often means paying too much — financially and behaviourally.

This dynamic explains why protection is frequently adopted late, under pressure, and with diminished effectiveness. It is not that advisers misunderstand risk; it is that the incentives around protection are misaligned with when it works best.

From timing protection to embedding protection

The shift advisers must make is subtle but critical.

The question is not *when* to add protection, but *how* protection is embedded within the portfolio. Structural protection is not switched on and off. It scales, adjusts and operates across market environments.

This approach does not eliminate volatility. It accepts it. The objective is not to avoid all losses, but to ensure that losses do not impair the portfolio's ability to function, generate income and support decision-making when conditions change.

Protection that is embedded becomes less visible — and more effective.

Protection as responsibility

Markets will always be uncertain. Volatility will ebb and flow. Assumptions that appear safe will periodically fail.

In such an environment, the role of the adviser is not to predict outcomes, but to design portfolios that remain functional across them. Protection is not about fear of markets or pessimism about the future. It is about responsibility for outcomes that cannot be repeated or easily repaired.

Protection, properly understood, is not an overlay.
It is part of the architecture.

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