

Why understanding risk is not the same as managing it

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The importance of sequence of returns risk is well understood. The idea that the timing of returns can materially influence outcomes, particularly in retirement, is widely accepted in both academic literature and professional practice.

At the same time, the structural characteristics of retirement portfolios are clear. Withdrawals reduce the capital base, and the ability to recover from losses is constrained. Industry research has increasingly acknowledged that traditional portfolio frameworks, while effective in accumulation, may not fully address the way risk is experienced in retirement.

These observations are widely understood.

However, they lead to a more practical question.

If the risks are understood, to what extent are they reflected in portfolio construction?

From awareness to action

In practice, advisers tend to fall into three broad categories.

The first group does not explicitly recognise sequence risk as a distinct issue. Portfolio construction is guided by long-term averages, diversification and the expectation that markets will recover over time.

The third group moves beyond awareness and incorporates sequence risk directly into portfolio design. These portfolios explicitly consider how returns are experienced through time, including the management of downside risk and its behavioural implications.

Between these two groups sits a larger and more complex segment.

These advisers understand sequence risk. They recognise that timing matters, particularly when withdrawals are involved. ***However, this understanding does not consistently translate into changes in portfolio construction.***

This is not a question of knowledge. ***It is a question of behaviour.***

From awareness to alignment

This leads to a broader consideration.

Portfolio construction is often built on frameworks designed to serve a wide range of investors. These frameworks are robust, widely adopted and supported by long-term evidence. However, not all clients have the same objectives or tolerance for risk.

For a segment of the market, particularly those approaching or in retirement, the primary objective is not maximising long-term return. It is maintaining financial stability and peace of mind across different market conditions.

In this context, portfolio design becomes a question of alignment.

Are portfolios structured to meet the specific needs of this segment, or are clients being fitted into frameworks developed under different assumptions?

Different investors experience risk differently

Investors do not respond to risk in a uniform way.

Some are primarily focused on long-term growth and are willing to accept variability in outcomes. Others place greater emphasis on stability and the avoidance of large drawdowns, particularly where income needs are ongoing.

For investors in the latter group, the experience of risk matters as much as the return itself. Drawdowns are not simply temporary fluctuations. They can affect both financial outcomes and decision-making behaviour.

This distinction highlights the importance of aligning portfolio construction with the needs of the client.

Why alignment does not always occur

If the importance of sequence risk is widely understood, and if client needs are clearly differentiated, the question arises: why is this not more consistently reflected in practice?

The answer lies in a set of behavioural and professional influences that shape decision-making.

Loss aversion plays a central role. The potential cost of implementing a different approach, particularly if it underperforms in rising markets, is often weighted more heavily than the potential benefit of reducing downside risk.

Closely related is regret minimisation. Decisions are not evaluated solely on outcomes, but on how they may be perceived after the fact. Departing from widely accepted frameworks

introduces the possibility of individual regret, while remaining aligned with industry norms distributes that risk more broadly.

Social proof reinforces this dynamic. Established portfolio structures are widely used and understood. Their prevalence provides implicit validation, making alternative approaches more difficult to adopt, regardless of their underlying merits.

Status quo bias further contributes to inertia. Existing frameworks are robust and supported by long-term evidence. Changing them requires not only conviction, but explanation.

Taken together, these factors create a powerful tendency towards maintaining existing structures, even where their limitations are recognised.

Reframing the decision

The answer may depend on how the decision is framed.

In accumulation, doing nothing is often defensible. Time, ongoing contributions and market recovery can mitigate the impact of adverse return sequences. In this context, reliance on established frameworks has historically been effective.

In retirement, the dynamic changes.

Withdrawals begin. Capital is no longer added. The consequences of early losses are not simply temporary. They can reduce the base from which future returns are generated, with effects that compound over time.

In this environment, the decision not to act carries different implications.

It is no longer a neutral position.

It may result in outcomes that are inconsistent with the needs of the client, particularly where stability and income are required.

A more complete perspective

Portfolio construction does not typically remain static throughout an investor's lifecycle. As clients transition from accumulation to retirement, it is common to see adjustments in portfolio structure.

These adjustments often take the form of increased allocations to cash or defensive assets, alongside a reduction in growth exposure. In many cases, this involves removing or reducing long-only equity exposures in favour of more conservative positioning.

While this approach can reduce overall portfolio volatility, it may reduce the portfolio's ability to participate in subsequent market recoveries.

An alternative perspective is to consider not only the level of risk within the portfolio, but how that risk is managed.

Rather than removing equity exposure entirely, there may be scope to retain a core allocation while refining its characteristics. This can involve incorporating strategies that seek to manage downside risk within equity exposure itself, allowing portfolios to maintain participation in growth while moderating the impact of adverse market conditions.

In this context, the transition from accumulation to retirement is not solely a question of reducing risk. It is a question of how risk is structured and experienced within the portfolio.

This distinction allows for a more gradual and integrated evolution of portfolio construction, where growth and stability are not treated as mutually exclusive, but as components that can be combined and managed together.

Conclusion

The question is not whether markets fall.

It is how retirement portfolios respond when they do, and whether the sequence of returns leads to permanent impairment of lifestyle.

Recent performance snapshot

For the quarter ended 31 March 2026, Class A returned +3.66% and Class B returned +6.20%.

Gyrostat Risk Managed Equity Fund

Performance Report - Class A and Class B

Absolute Returns at 31 March 2026

Class	1yr	2yr p.a.	3yr p.a.	4yr p.a.	Max Qtr Loss (3Yr)	Beta
A	+8.92%	+9.28%	+7.72%	+10.41%	-0.52%	-0.08
B	+11.90%	+10.71%	+10.03%	+13.87%	-0.84%	-0.21

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