Chart on the Go

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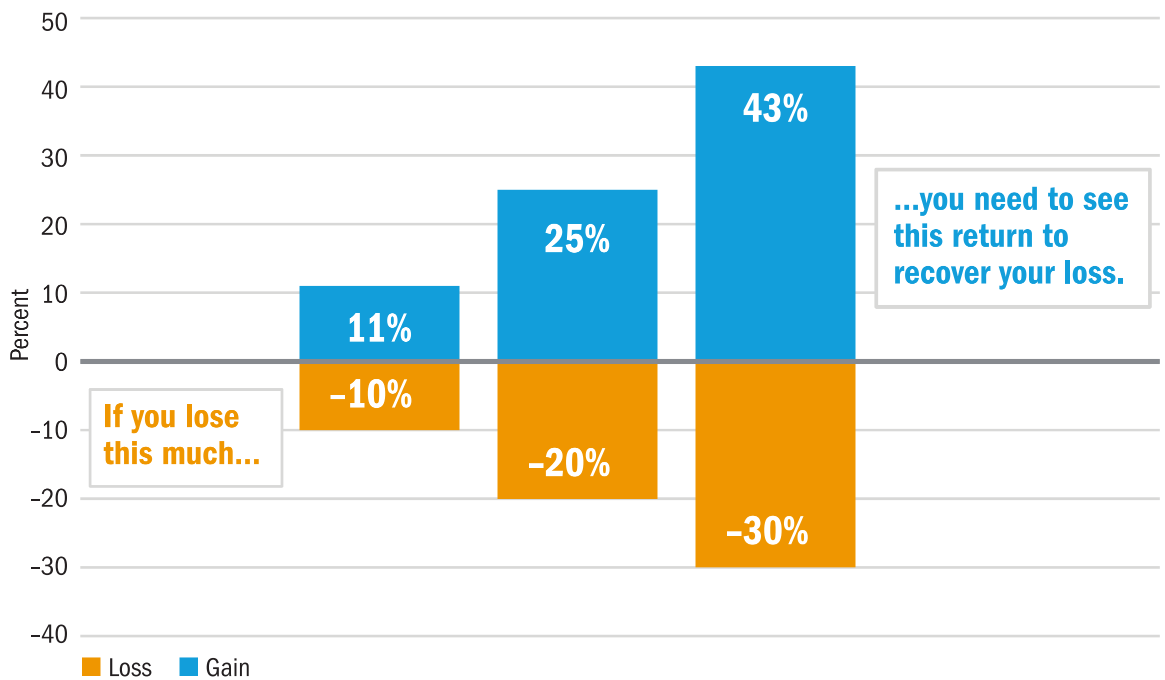
The math of recovery: Why downside protection matters

Gain required to break even after a loss



Source: Columbia Management Investment Advisers, LLC.

The math of recovery makes it clear that losing less up front is essential to building long-term wealth. If an investor loses 50% on a $100 investment, they'd need a 100% gain to get back to zero.

Diversification won't guarantee protection against losses. But there are asset allocation strategies than can work to minimize overall portfolio drawdowns. For example, investment dollars can be spread across types of assets that tend to move up and down at different times.

Don't take for granted that a 60% equity/40% bond portfolio is adequately diversified — today we have more sophisticated approaches that may be more effective.

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