

Resilient Investment Strategies

Why constant volatility demands building portfolios for a permanently uncertain world.

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Dear Reader,

Financial markets have become highly unpredictable, with geopolitical tensions, shifting economic cycles, and policy changes often sparking rapid changes in market conditions. Conflicts and trade disputes, for instance, can send commodity prices and global equity indices swinging without warning. In such an environment, investors must remain agile and prepare their portfolios to withstand a range of adverse scenarios – in short, they need resilient investment strategies. This mid-month letter defines what a resilient investment strategy entails, outlines the core principles of building a resilient portfolio, explains how Dexbridge applies this approach, and illustrates resilience in action with a real-world example.

What Is a Resilient Investment Strategy?

A resilient investment strategy prioritizes flexibility and risk mitigation to cope with market shocks. While it cannot eliminate risk entirely, this approach provides a greater margin of safety when markets turn volatile. The key idea is to structure portfolios so that during periods of market stress, investors can adjust or exit problematic positions without incurring major losses. In practice, resilience means building in an extra cushion – through diversification, protective instruments, and prudent asset selection – so the portfolio can absorb surprises and recover more readily. It is an investment philosophy focused on preservation as much as performance. By protecting the downside, investors can stay on track toward their goals even when markets get rocky.

Core Principles of a Resilient Portfolio

Several core principles help make a portfolio resilient in the face of uncertainty. These guiding ideas include:

- **Broad Diversification:** Spread investments across asset classes, regions, and sectors to avoid over-concentration. A resilient portfolio balances equities, fixed income, and alternatives (such as gold or CLOs) so that no single market event can severely damage overall performance.
- **Defensive Positioning:** Focus on assets that offer built-in downside protection, not just those that rely on holding through market volatility. Rather than depending solely on mark-to-market performance, resilient portfolios include instruments, such as structured products or fixed-income strategies, that can limit losses through predefined barriers or deliver returns even in declining markets. This approach reduces reliance on market recovery and adds stability when traditional long-only positions are under pressure.
- **Non-Correlated Assets:** Incorporate investments that don't move in lockstep with mainstream markets. Alternative assets or strategies – for instance, certain structured products or hedge strategies – can deliver returns that are independent of equity market swings, reducing the portfolio's overall volatility.
- **Active Risk Management and Adaptability:** Resilience isn't a set-and-forget proposition. It requires ongoing monitoring and small adjustments. Investors (and their advisors) should continuously assess market conditions and portfolio exposures, rebalancing or hedging as needed. The ability to pivot when new risks emerge ensures the portfolio remains aligned with the investor's risk tolerance and objectives.

How Dexbridge Implements This Strategy

At Dexbridge, we put the principles of resilience into practice by carefully designing investment products and portfolio strategies for our clients. A cornerstone of our approach is the use of tailored structured products (investment certificates) that balance growth potential with built-in protections. These instruments can offer attractive returns while also providing safeguards against major market downturns. We combine institutional-grade strategies with proactive management – actively monitoring positions and making tactical adjustments – to keep portfolios robust through changing market conditions.

In implementing resilient strategies, we focus on several technical elements:

- **Reliable underlying assets:** We select stocks, indices, or other underlying assets that are historically stable and low in volatility, minimizing the chance of a severe correction.
- **Robust protection barriers:** Each structured product is built with a deep downside barrier – often a level never breached in the asset's history. This means principal remains shielded unless the underlying falls below an extremely low threshold, providing a buffer against major market drops.
- **Strong coupon income:** Many structured solutions pay regular interest (coupons) regardless of market direction. We also favor high coupon rates so investors receive substantial income. This steady cash flow rewards investors even in flat markets and gradually reduces the net capital at risk over time.
- **Low issuer risk:** Resilience also means minimizing credit risk. We partner only with highly rated issuers, ensuring the product's performance is not threatened by issuer default risk.
- **Optimized risk/reward timing:** We target opportunities when structured product terms are especially favorable – locking in higher return potential while keeping the probability of a barrier breach low.
- **“Airbag” protection:** Where appropriate, we incorporate a low-strike “airbag” feature. If the underlying falls below the barrier, this mechanism cushions the impact by reducing the loss calculation (using a lower reference point), thus preserving more value in extreme scenarios.

Resilience in Practice: An Example

For example, consider a USD1,000,000 structured note with a 10% annual coupon that pays out reliably regardless of market moves, and a deep protection barrier set 50% below the initial level of a stable asset basket. Even if markets slide significantly, the investor continues to receive the 10% income, and the principal remains intact unless the underlying assets drop by more than half (i.e. below the barrier). This scenario clearly demonstrates how a well-designed resilient investment can provide steady returns and shield capital through serious volatility.

Conclusion

Building resilience into an investment portfolio is about preparing for the unexpected. While no strategy can completely sidestep risk, a resilient approach emphasizes prudent safeguards, diversification, and steady income to weather storms. Investors who adopt this mindset can cushion against downturns without forfeiting the opportunity to grow their wealth. The goal is to participate in the upside during strong markets, but also to have protections in place during periods of decline.

At Dexbridge, we believe that staying disciplined and focusing on quality assets, protective structures, and proactive risk management is the key to long-term success. By maintaining perspective and sticking to these core principles, investors can remain confident even in volatile periods. In any market environment, a bit of prudence and a strong safety margin can serve as the best hedge against uncertainty.

Keep in mind, what were once transitional uncertainties in today's world, have become constant uncertainties - making portfolio resilience more essential than ever.

Warm Regards,

Nico

