# Article information:

A Framework for Constructing Equity-Risk-Mitigation Portfolios (Summary)  
<https://www.cfainstitute.org/en/research/financial-analysts-journal/2020/framework-constructing-equity-risk-mitigation-portfolios>

# Article summary:

1. Constructing portfolios that can mitigate equity risk with the lowest possible opportunity cost is presented as a solution to investors seeking to hedge against equity market drawdowns.

2. The authors propose a framework for combining four common equity-risk-mitigation strategies within a portfolio to maximize investors’ returns, subject to a selected conditional equity beta target.

3. By combining a range of risk-mitigation strategies, each with a different risk and return potential, portfolios can be resilient to market downturns without giving up significant return.

# Article rating:

Appears moderately imbalanced: The article provides some useful information, but is missing several important points or pieces of evidence that would be required to present the discussed topics in a balanced and reliable way. You are encouraged to seek a more balanced perspective on the presented issues by exploring the provided research topics and looking at different information sources.

# Article analysis:

The article “A Framework for Constructing Equity-Risk-Mitigation Portfolios” proposes a framework for constructing portfolios that can mitigate equity risk with the lowest possible opportunity cost. The authors assess four common equity-risk-mitigation strategies and propose a framework for combining them within a portfolio to maximize investors’ returns, subject to a selected conditional equity beta target. The resulting framework can be optimized to suit investors’ different return expectations and conditional and unconditional risk targets.

The article presents an unbiased view of the issue and provides evidence to support its claims. However, it is important to note that the authors assume that investors have an existing investment portfolio and wish to hedge the equity portion through an overlay portfolio of risk-mitigation strategies. This assumption may not hold true for all investors, as some may prefer to sell down their equity portfolios or invest in costly risk-mitigation strategies.

Additionally, while the article acknowledges that creating “insurance” portfolios is much less expensive than buying puts or shorting equity indexes, it does not explore the potential risks associated with these strategies. For instance, buying puts can be costly if markets do not experience significant drawdowns, while shorting equity indexes can result in losses if markets continue to rise.

Furthermore, the article does not present both sides equally when discussing the optimal portfolio composition for different types of investors. For instance, when discussing portfolios for which equity hedging is not a high priority, the article suggests holding a short position in tail-risk hedging strategy without exploring potential risks associated with this strategy.

Overall, while the article presents an interesting framework for constructing equity-risk-mitigation portfolios, it is important for investors and investment professionals to consider potential risks associated with different risk-mitigation strategies before implementing them in their portfolios.

# Topics for further research:

* Risks associated with buying puts as a risk-mitigation strategy
* Potential losses from shorting equity indexes
* Cost-effectiveness of creating insurance portfolios
* Alternatives to risk-mitigation strategies for hedging equity portfolios
* Risks associated with short positions in tail-risk hedging strategies
* Impact of market conditions on the effectiveness of risk-mitigation strategies

# Report location:

<https://www.fullpicture.app/item/225bfebf9e99d2eef219d386128f62f6>