PIMCO

Your Global Investment Authority

Tail risk: The cost of recovery

EDUCATION SERIES

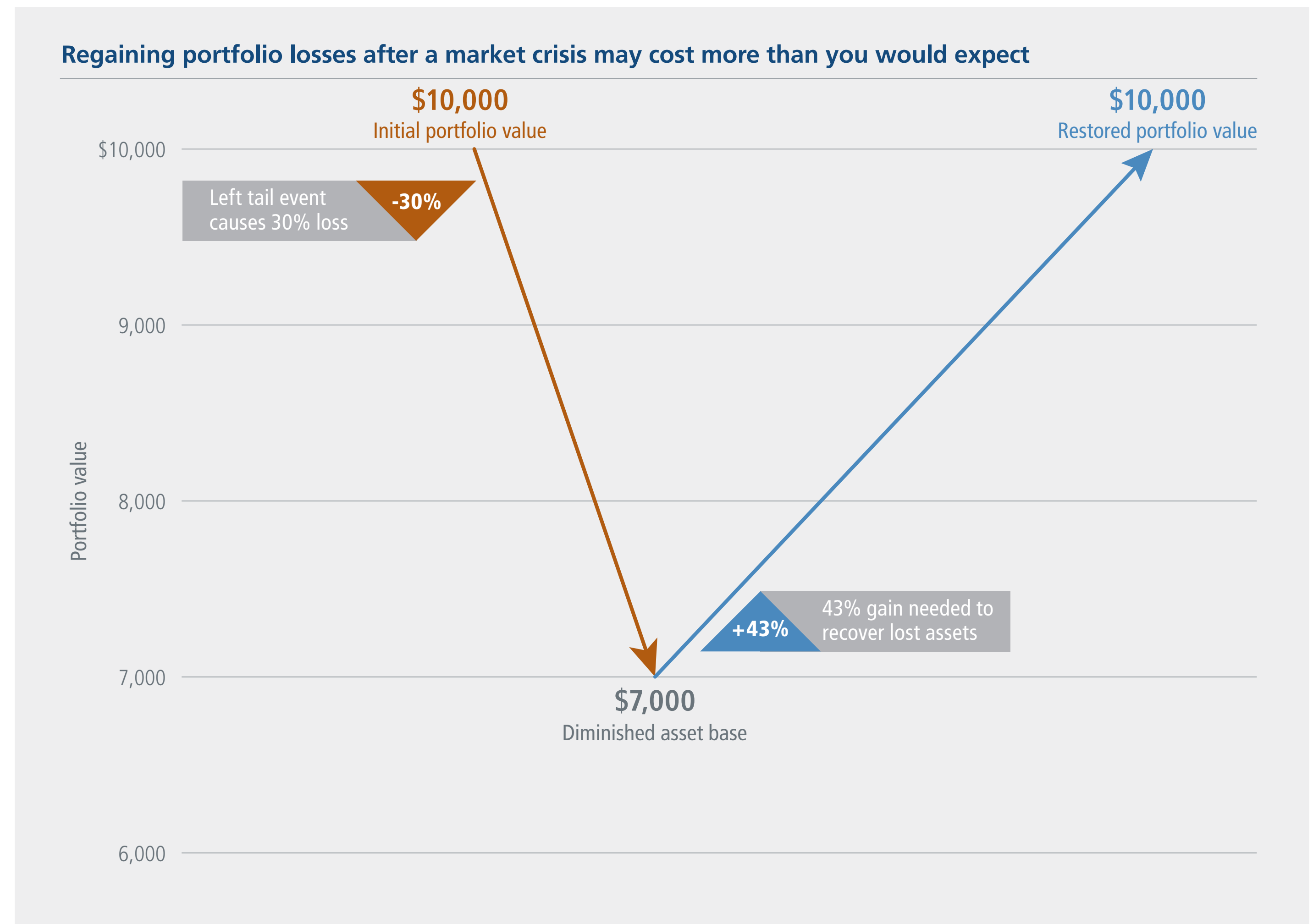
Recovering from left tail events, or extreme portfolio declines, can be challenging, because any future gains will be made on a diminished base of assets.

What this chart shows

In the hypothetical example at right, an investor whose $10,000 portfolio has lost 30% will need a 43% positive return just to bring the portfolio back to its starting value.

What it means for investors

Because getting back to where you started may take considerable time or require taking on significant risk, investors looking to protect long-term return potential may want to proactively guard their portfolios against left tail market declines and their potentially disastrous outcomes.



A word about risk: Tail risk hedging may involve entering into financial derivatives that are expected to increase in value during the occurrence of tail events. Investing in a tail event instrument could lose all or a portion of its value even in a period of severe market stress. A tail event is unpredictable; therefore, investments in instruments tied to the occurrence of a tail event are speculative. **Derivatives** may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested.

Past performance is not a guarantee of future results. This chart is not indicative of past or future performance of any PIMCO product.

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