Are you overestimating the return you need to achieve your financial goals?

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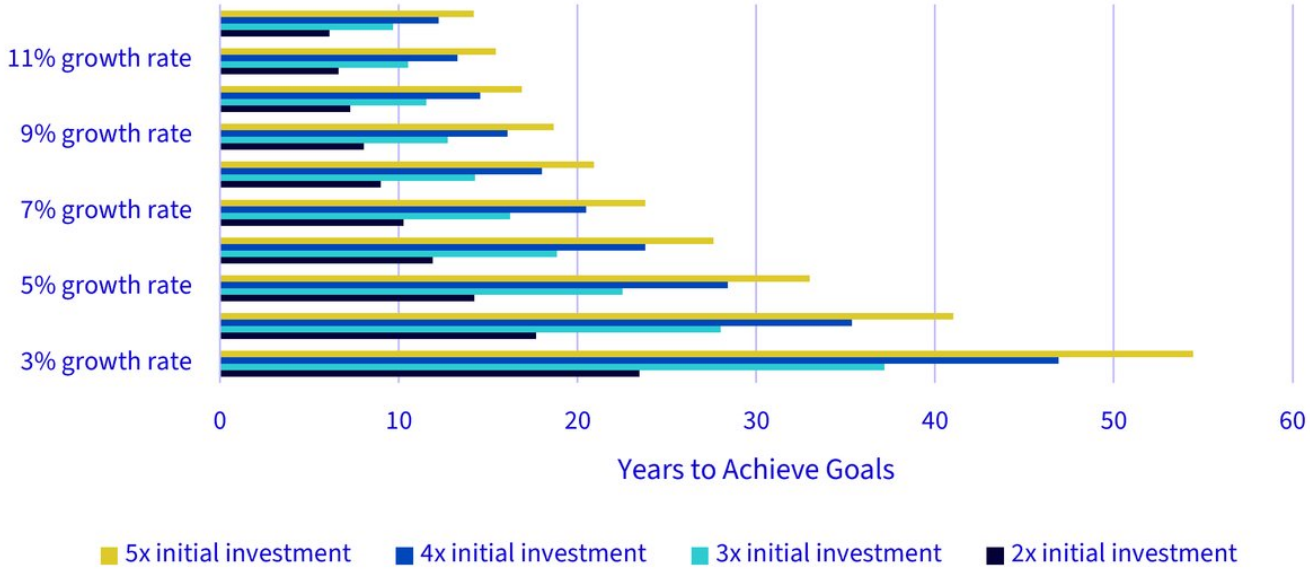
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Key Takeaways

- Starting with the goal, rather than what the market might deliver, can help investors work out the return they actually need. Working backwards shows how much growth is required and over what time frame.
- Compounding rewards patience. Growth of around 8% a year could turn an investment into 5x over 20 years, which suggests ambitious goals don't always depend on exceptional returns.
- Defined return investments cap upside at a target level in exchange for a higher probability of achieving that return across a wider range of market conditions.

As investors, we often focus on what returns we could achieve, rather than the returns that are needed to attain our financial goals. For many, working backwards from a goal might make it simpler to determine the required return and a reasonable time horizon to reach it. The chart below shows the length of time it takes to 2x, 3x, 4x or 5x an initial investment for various growth rates.

Figure 1: Time to achieve investment goals by growth rate



Source: WisdomTree. For illustrative purposes only.

As the rate of return increases, these investment multiples are achieved at a faster pace. Interestingly, even at moderate rates of return, investors can achieve multiples on their investments through the benefit of time and compounding. For example, approximately 7% growth each year is enough for an investor to double their investment within 10 years. For investors looking to 5x their investment over 20 years, growth rates of around 8% make this possible. Portfolios can grow substantially without requiring double-digit annual returns.

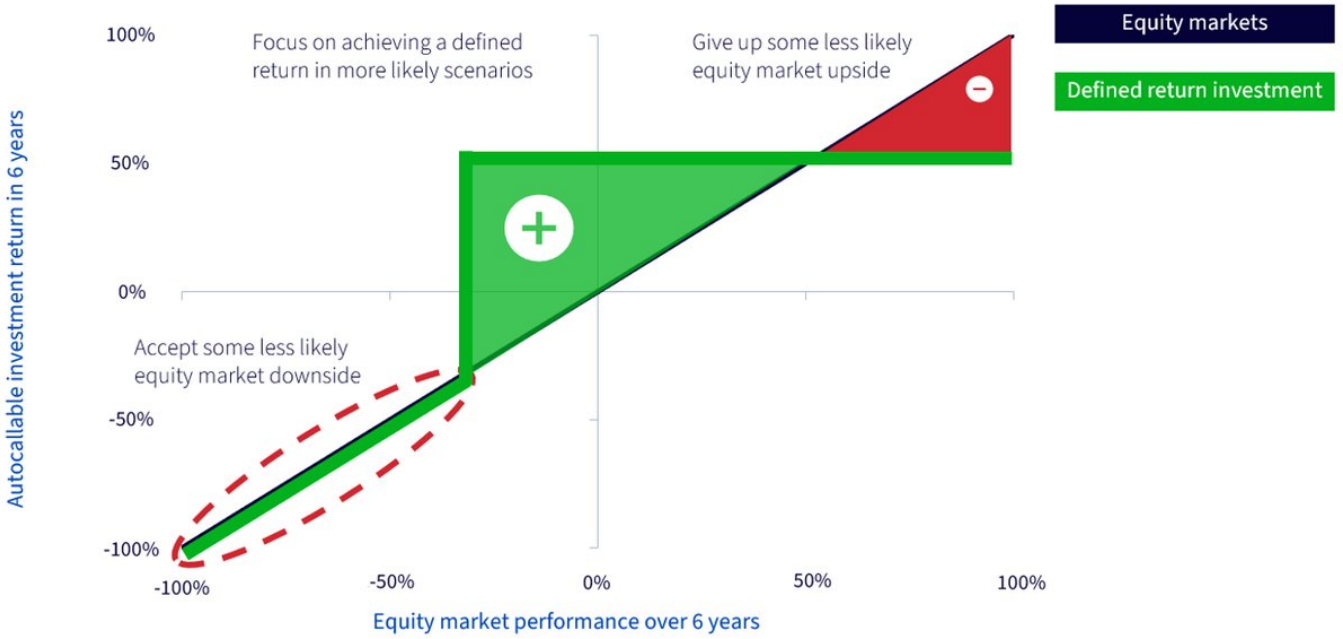
The journey matters

Assuming very high returns are needed to achieve goals can cause challenges, as it may push investors towards riskier assets, such as equities. Historically, global equity returns have been excellent over the long term, but investors also experience the journey. It's not quite The Odyssey, but equity investing can feel like an epic of emotions. Returns over short-to-medium time horizons are highly uncertain and can be disappointing, and drawdown periods have historically been severe. The uncertain journey equity investing provides can lead investors to abandon their plans altogether, often at poor times, making their financial goals harder to achieve.

Making equity returns more predictable

But what if investors could target the returns that fulfil their goals, without needing strong equity market performance to achieve them? Enter Odysseus, a defined return investment. These investments can help make equity investing less uncertain by increasing the probability of generating a target return across a wider range of equity market conditions. Returns of 7%, 8%, 9% or even 10% per annum can be targeted and achieved subject to pre-defined conditions, often without requiring significant equity market appreciation.

Figure 2: Defined return investments can generate more predictable returns



Source: WisdomTree. For illustrative purposes only. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Defined return investments come in different forms, but they generally trade away equity market upside by capping potential returns at the target level. By giving away this potential upside (the red triangle), these investments increase the range of market scenarios in which the target return can be generated (the green triangle).

In this illustrative example, so long as equity markets are not down by more than around 30% at the end of the investment's six-year life, the investment achieves its defined return. Here, the underlying equity market can rise, remain flat or even fall moderately and the same target return can be generated. However, if markets perform poorly and are down by more than around 30% at the end of the six-year period, the defined return investment participates one-for-one in the equity market decline. It also does not receive the dividends that an equity investor would ordinarily expect to collect. If equity markets are down 50% at the end of six years, a defined return investment would not generally shield investors from that fall. Though historically, point-to-point declines of more than 30% over six-year periods have been relatively rare for major equity markets1.

How much return do you really need?

If returns of 7% or 8% per annum are enough to fulfil an investor's financial goals, maximising potential returns is not necessarily a useful objective. Defined return strategies can target these levels of return across a wider range of equity market outcomes, subject to pre-defined conditions. These investments can therefore support investors in pursuing the more helpful objective of generating the returns needed to reach their destination, while taking on a level of risk that allows them to remain on that journey.

1 Source: WisdomTree, Bloomberg L.P. Monthly observations using price return indices. Index start dates: S&P 500 (30 December 1927), MSCI World (31 December 1969), FTSE 100 (30 December 1983) and EURO STOXX 50 (31

December 1986). Percentage of six-year rolling periods with a point-to-point decline of more than 30%, from index start date to 30 September 2026: S&P 500 (4.4%), MSCI World (0.0%), FTSE 100 (0.0%) and EURO STOXX 50 (6.4%). **Historical performance is not an indication of future performance and any investments may go down in value.**

IMPORTANT INFORMATION

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