Time and predictability: the role of defined return investments in long-term investing

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Key Takeaways

- Time reduces uncertainty: over longer horizons, short-term volatility smooths out and investment outcomes become more predictable, which is the core principle underpinning defined return investments.
- Two premia, one investment: defined return investments provide simultaneous access to both the equity risk premium and the volatility risk premium, offering a structurally differentiated return profile.
- Behaviour matters as much as performance: by providing clarity on outcomes, timelines and the likely short-term journey, defined return investments help investors stay disciplined and avoid emotionally driven decisions.

Time is one of the most powerful tools in enhancing predictability. Across disciplines, economics, artificial intelligence, health, investments, and social sciences research consistently shows that outcomes become more predictable as the time horizon lengthens. Volatility, uncertainty, and noise tend to dominate in the short term, but over extended periods, patterns emerge, risks average out, and confidence in outcomes grows. This principle underpins the growing appeal of defined return investments.

What is a defined return investment?

Also known as ‘structured products’ or ‘defined outcome investments’, defined return investments are investment vehicles designed to deliver a pre-defined return over a fixed time period. Their performance is linked to an underlying asset, often one equity index or multiple equity indices, but with predictable outcomes, downside buffers, and capped upside potential disclosed upfront.

Used sensibly, these investments can enable investors to capture equity-like returns over the medium to long-term, with the benefits of:

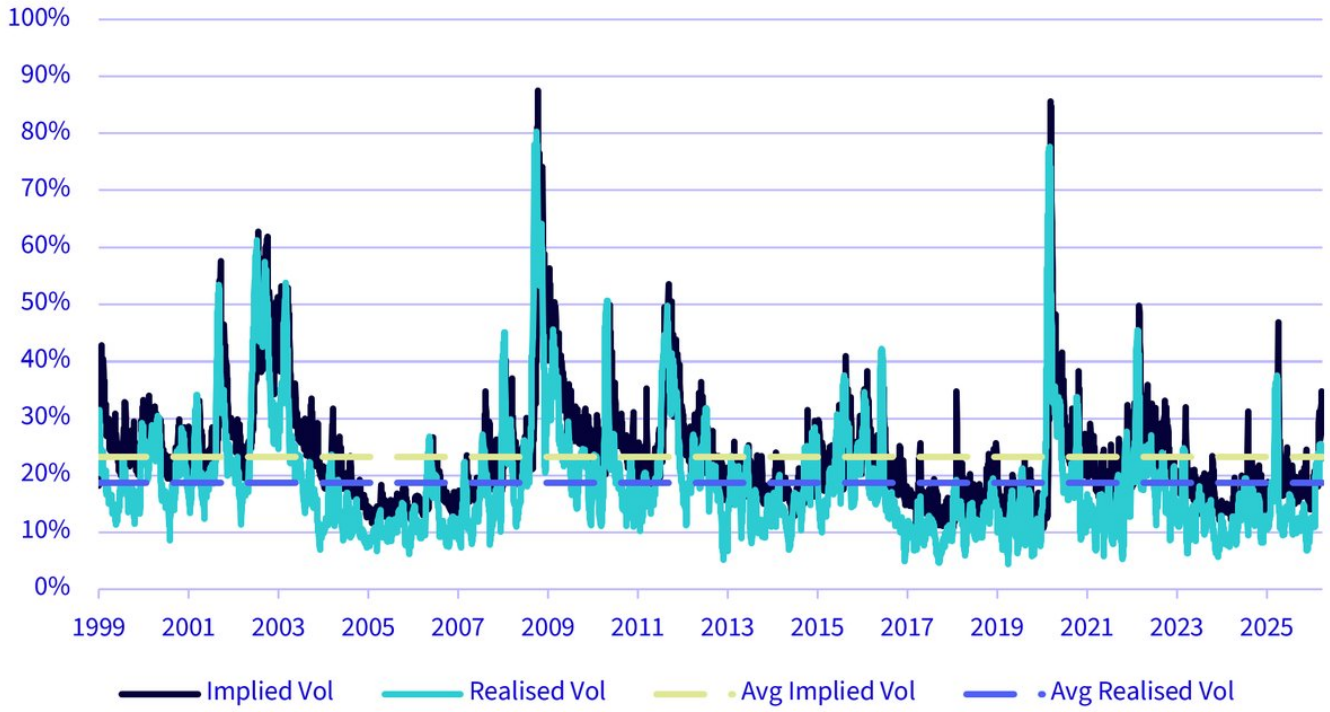
- Predefined risk
- Lower volatility than equities
- A clearer journey for the defined period
- Equity risk premium with a time buffer

At the heart of defined return investments is access to the equity risk premium, the excess return investors earn for holding equities over risk-free assets like government bonds. While this premium is volatile in the short term, it's been shown to be more predictable over longer periods. These investments allow investors to harness this premium whilst avoiding locking in losses in the short-term in the event of falling markets, through long-term capital protection features (e.g. by providing a buffer to the first 30% fall in markets).

Volatility risk premium

In addition to harnessing the equity risk premium, defined return investments also harness another, less familiar, risk premium – the volatility risk premium. This premium exists because market expectations of market volatility are, more often than not, higher than market volatility that transpires. Through their use of derivatives, defined return investments harness this premium while simultaneously harnessing the equity risk premium, and investors access these two premia with one investment.

Figure 1: Investors routinely overpay for downside protection



Source: WisdomTree, Bloomberg. Implied volatility is measured using the VSTOXX Index, while realised volatility is measured using a rolling 20-day window based on Euro Stoxx 50 daily price returns from 04/01/1999 to 28/04/2026. **Historical performance is not an indication of future performance and any investments may go down in value.**

Behavioural and structural advantages

Volatility often drives poor investment decisions. When investors face uncertainty and daily market swings, they're more prone to emotional reactions, panic selling, market timing, or abandoning long-term plans.

Defined return investments counter this by:

- Providing clarity: With known outcomes and timelines, investors can plan with greater certainty.
- Expectation management: These investments are formulaic, so providers can inform investors of the likely short-term journey an investment will take on its path to its final destination. This is incredibly powerful in helping investors focus on the long-term rather than the short, noisy term.
- Offering downside protection: Reducing the emotional cost of staying invested.
- Encouraging long-term thinking: The defined term and structure help investors 'zoom out' and stay focused on goals.

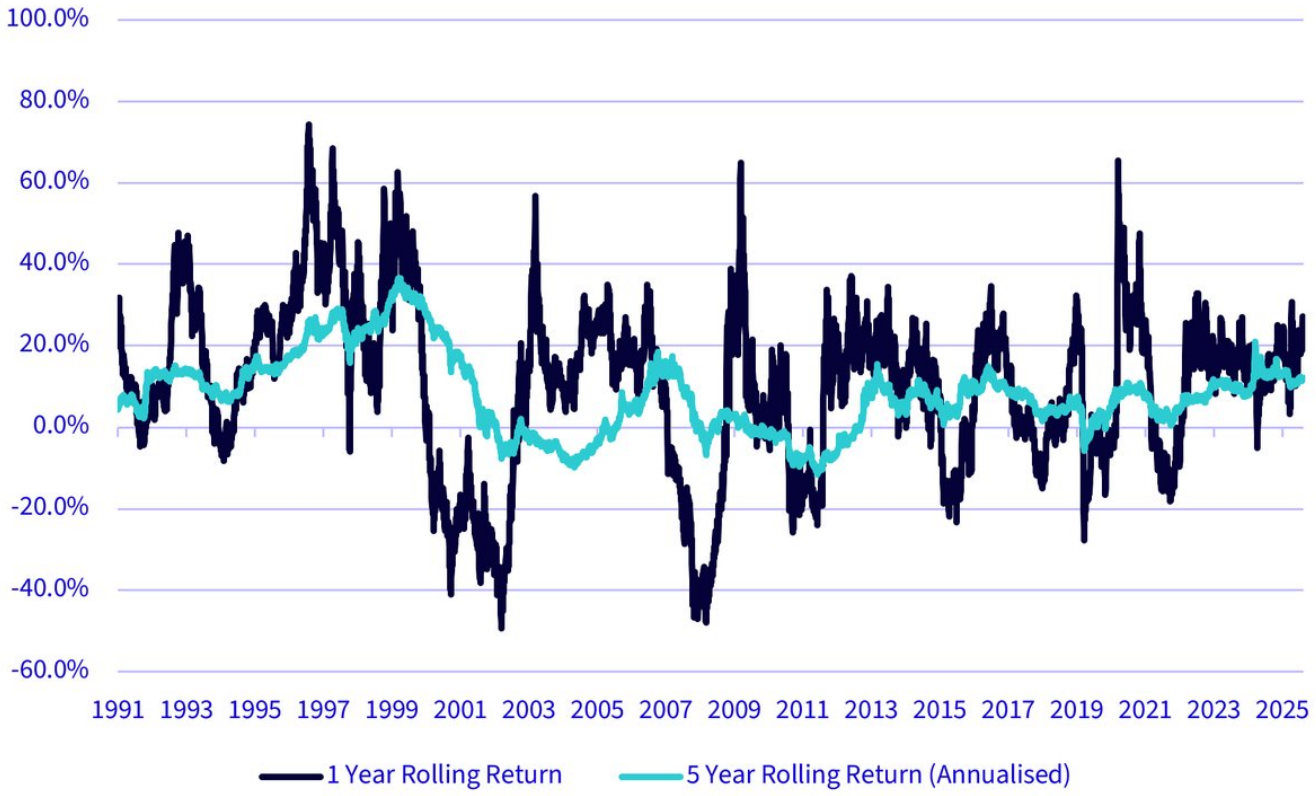
Think of it like viewing a forest: up close, the chaos of individual trees and leaves can be overwhelming. Step back, and the structure of the entire ecosystem comes into focus.

Time as a volatility arbitrage

Volatility is largely a function of time. Over a day or month, equity markets can swing wildly due to sentiment, news, or macroeconomic shocks. Over five years, however, these movements tend to mean-revert and smooth out.

The law of large numbers, used in insurance to predict mortality across populations, has a close parallel in finance. While the movement of a single day's VIX or a stock's price may be unpredictable, aggregate patterns over time generally become stable and measurable.

Figure 2: Time smooths equity market returns



Source: WisdomTree, Bloomberg. Rolling Returns are measured using EURO STOXX 50 Total Return daily data from 31/12/1986 to 14/08/2026. ***Historical performance is not an indication of future performance, and any investment may go down in value.***

Multi-asset portfolios and the role of defined return investments

In a traditional 60/40 (equity/bond) portfolio, adding defined return investments provide:

- Return consistency: By narrowing the range of expected returns.
- Downside protection: Buffers against market losses.
- Behavioural diversification: Helps reduce the likelihood of impulsive decision-making.
- Structural diversification: A unique return profile that isn't purely equity or bond-like.

These investments are particularly useful for medium-term goals like retirement glide paths, where capital preservation and growth must be balanced carefully.

Zooming out to see the signal

When you zoom out from short-term volatility, a clear long-term trend emerges; equities outperform bonds, offering about twice the risk premium over extended periods. Defined return investments offer a structured way to participate in this long-term trend without bearing the full brunt of short-term market swings, whilst also harnessing another source of return – the volatility risk premium.

They enable you to zoom out by locking in a multi-year horizon, reducing reactionary behaviour and improving portfolio discipline.

Conclusion: Arbitraging time with confidence

Defined return investments leverage time as an asset. By structuring equity exposure within a defined, multi-year framework, they allow investors to:

- Access the most significant source of long-term portfolio return – the equity risk premium
- Access another significant source of return – the volatility risk premium
- Protect investors from locking in losses due to short term market falls
- Enhance predictability
- Reduce behavioural mistakes

Ultimately, defined return investments are tools to arbitrage time itself, converting short-term uncertainty into long-term opportunity.

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