00:00:08:09 - 00:00:33:02

Speaker #1

Welcome. My name is Andrew Barron, and this is Well. It depends. The podcast where I address financial decisions that can't be answered with a simple yes or no. In this episode, I ask the question, “an I be fully protected financially?” But before we begin, a short disclaimer.

00:00:33:02 - 00:00:53:15

Speaker #1

This is being recorded on November 21st, 2024. The contents of this podcast are strictly for informational purposes only, and nothing said to be taken as investment, tax, insurance or legal advice.

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Speaker #1

It's important to consult with a professional before making any financial decisions, as the strategies discussed may not be suitable for you specifically.

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Speaker #1

Getting into it. Can I be fully protected financially? Well, it depends. You've likely heard the phrase no risk, no reward. But what if you're not chasing rewards and you just want to make sure you never lose what you already have?

00:01:26:20 - 00:01:35:07

Speaker #1

Is there anything that offers 100% downside protection? Well, as you probably guessed, it depends.

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Speaker #1

First, let's break this down. Downside protection means protecting yourself against losing money, whether it be market volatility, inflation, or plain old bad luck. But here's the catch. If something seems to offer absolute protection, it usually comes with some trade offs.

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Speaker #1

For example, let's talk about cash. Keeping your money in a savings account or under your mattress might feel safe. And yes, your dollar amount will shrink. But here's the trade-off. Inflation over time, inflation eats away at the purchasing power of cash. So while you might have 100% protection and a nominal sense, you're actually losing buying power in real terms. Now let's talk insurance.

00:02:33:04 - 00:03:06:19

Speaker #1

In some ways, insurance feels like the ultimate safety net. It protects your assets, health or income. But here's where the it depends comes from. You're trading premium dollars today for peace of mind about a future uncertainty. And if that uncertainty never occurs, well your premium dollars are gone. What about government backed options such as treasuries? These are often counted as being risk free.

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But here's another angle. Opportunity Cost. Putting all of your money in these vehicles might mean missing out on better returns elsewhere. It's the classic dilemma of safety versus growth. And even here, there's no escaping inflation. A 4% yield on a Treasury bond might sound nice. But if inflation is running at 6%, you're still losing purchasing power.

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Speaker #1

So, is there a better answer?

00:03:38:22 - 00:04:15:09

Speaker #1

Diversification might be as close as we can get to downside protection, while still keeping some upside potential by spreading your money across different asset classes such as stocks, bonds, real estate, or even cash - you reduce the risk of any single event wiping you out. But remember, diversification doesn't eliminate risk. It simply spreads it around. You might be protected from a catastrophic loss, but you also won't experience runaway gains in a strong bull market.

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Speaker #1

Here's the reality. True, 100% downside protection doesn't exist. Every choice comes with trade offs. If you prioritize safety, you'll sacrifice growth. If you chase returns, you'll expose yourself to risk. Even sitting on sidelines has risk. Just ask anyone who avoided investing for the fear of market crashes, only to watch prices climb higher and higher. Instead of asking for perfect protection, maybe the better question is how much risk am I willing to accept?

00:04:51:01 - 00:04:55:08

Speaker #1

And how can I balance that with my financial goals?

00:04:55:08 - 00:05:00:14

Speaker #1

So to answer the question, can I be fully protected financially?

00:05:00:14 - 00:05:03:01

Speaker #1

Well, it depends.

**Speaker #1:**

**Andrew Baron, CFP®, EA**