Wealth Management Strategies
RETIREMENT SOLUTIONS

WHITE PAPER

DUAL-DIRECTIONAL STRATEGIES

A NEW APPROACH TO MANAGING RETIREMENT MARKET RISK

Understanding How Alternative Market Strategies May Seek Growth in Rising, Flat and Moderately Declining Markets

KEY CONSIDERATIONS

POTENTIAL TAX-DEFERRED GROWTH

Certain dual-directional strategies, particularly annuity-based solutions, may allow investment earnings to grow tax-deferred until withdrawals are made.

GREATER CONTROL OVER TAX TIMING

Tax deferral may provide flexibility in managing when taxable income is recognized, while withdrawals may be subject to ordinary income taxes and other applicable rules.

Executive Summary

Retirement investors face a difficult challenge: ***they need their assets to continue growing, but they may have less time and flexibility to recover from significant market losses****.*

Traditional portfolios generally depend on markets rising over time to generate positive returns. While that approach has historically played an important role in long-term investing, the transition into retirement introduces additional considerations. A significant market decline early in retirement can have a much greater impact when withdrawals are being taken at the same time.



This has led to growing interest in dual-directional strategies—investment approaches designed to potentially generate positive returns in certain rising and declining market environments.

Rather than simply participating in market appreciation or attempting to eliminate losses altogether, these strategies use options-based structures to create a defined range of potential outcomes. Depending on the specific strategy, investors may participate in market gains up to a predetermined cap while also having the potential to receive a positive return when the underlying market experiences a moderate decline.

However, these strategies are not risk-free. Protection is generally limited, upside may be capped, dividends may not be included, and losses can occur when declines exceed the applicable protection level. Certain structures may also involve liquidity restrictions, fees, surrender charges, issuer or insurance-company credit risk, or other limitations.

For pre-retirees and retirees, the more important question may not be whether a strategy can outperform a traditional investment in every environment. Instead, the question is whether a defined-outcome strategy can play an appropriate role within a broader retirement strategy designed around growth, protection, income, taxes, healthcare and legacy planning.

The Retirement Investment Challenge

Accumulating retirement assets and distributing those assets during retirement are fundamentally different financial challenges.

During the accumulation years, an investor may have decades to recover from a market decline. Contributions can continue, allowing an investor to purchase additional shares at lower prices.

Retirement changes that equation.

Once employment income begins to decline or stop, investment assets may become an important source of monthly cash flow. A portfolio experiencing a significant decline while withdrawals are occurring may have less opportunity to recover.

This is one reason retirement investors often look beyond a simple question of:
“How much can my portfolio earn?”

Instead, they may need to consider:

- How much market risk am I willing to accept?
- How much downside can my retirement plan withstand?
- Where will retirement income come from?
- How much of my portfolio needs growth potential?
- How much should be protected from significant market declines?
- How long will my assets need to last?
- What happens if markets decline during the first few years of retirement?
- How might taxes affect the amount I ultimately keep?
- How can my portfolio support both my lifestyle and my long-term goals?

Dual-directional strategies have emerged as one potential tool for addressing retirement investment concerns.

What Does "Dual-Directional" Mean?

The term dual-directional generally refers to a strategy designed to potentially benefit from both positive and certain negative movements in an underlying market index.

The basic concept is different from a traditional investment.

In a conventional equity investment:

- If the market rises, the investment may gain.
- If the market falls, the investment generally loses value.

A dual-directional structure may instead establish predetermined rules for how gains and losses are treated.

For example, a hypothetical strategy could be structured so that:

- A rising market produces a positive return, up to a predetermined cap.
- A moderate market decline may also produce a positive return.
- A decline beyond a specified protection level may result in a loss.



The exact outcome depends entirely on the terms of the specific investment. This distinction is important.

Dual-directional does not mean unlimited upside and unlimited downside protection.

It means the investment has a defined payoff structure that may respond differently to market movements than a traditional buy-and-hold investment.

How the Dual-Directional Mechanism Works

To understand these strategies, it helps to think in terms of three general market environments.

Rising Markets

In an up market, a dual-directional strategy may participate in some or all of the underlying index's gain.

For example, suppose a strategy has:

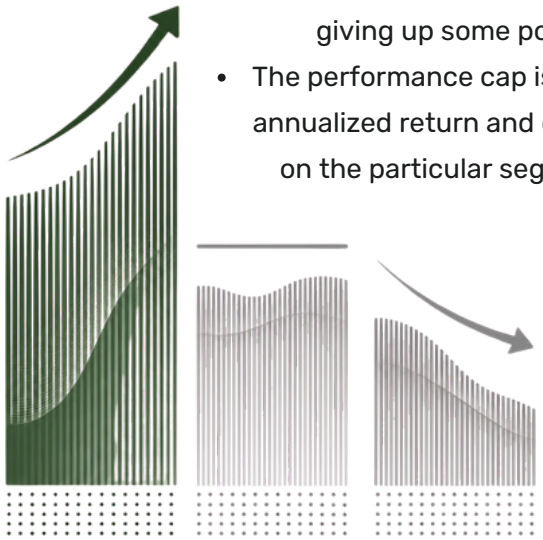
- A 1-year measurement period
- A 10% performance cap

If the underlying index gains 7%, the investor could potentially receive a 7% return, assuming the strategy's terms provide 1-to-1 participation and there are no other adjustments.

If the index gains 15%, however, the strategy could be limited to its predetermined 10% cap.

The cap therefore represents an important trade-off:

- The investor may receive a defined level of downside characteristics in exchange for giving up some potential upside.
- The performance cap is not necessarily an annualized return and can vary depending on the particular segment or strategy.



Moderately Declining Markets

This is where the dual-directional concept becomes particularly interesting.

Under certain structures, a moderate decline in the underlying index can be converted into a positive return. For example, assume a hypothetical strategy has a 15% dual-directional range.

If the underlying index declines:

-5%

the strategy could potentially produce:

+5%

If the index declines:

-12%

the strategy could potentially produce:

+12%

The purpose of this type of structure is not to predict market direction. Instead, it establishes a set of rules in advance that determine how the investment responds to different market outcomes.

This can be particularly relevant during periods when markets are volatile, uncertain or moving sideways.

How the Dual-Directional Mechanism Works (cont)

Severe Market Declines

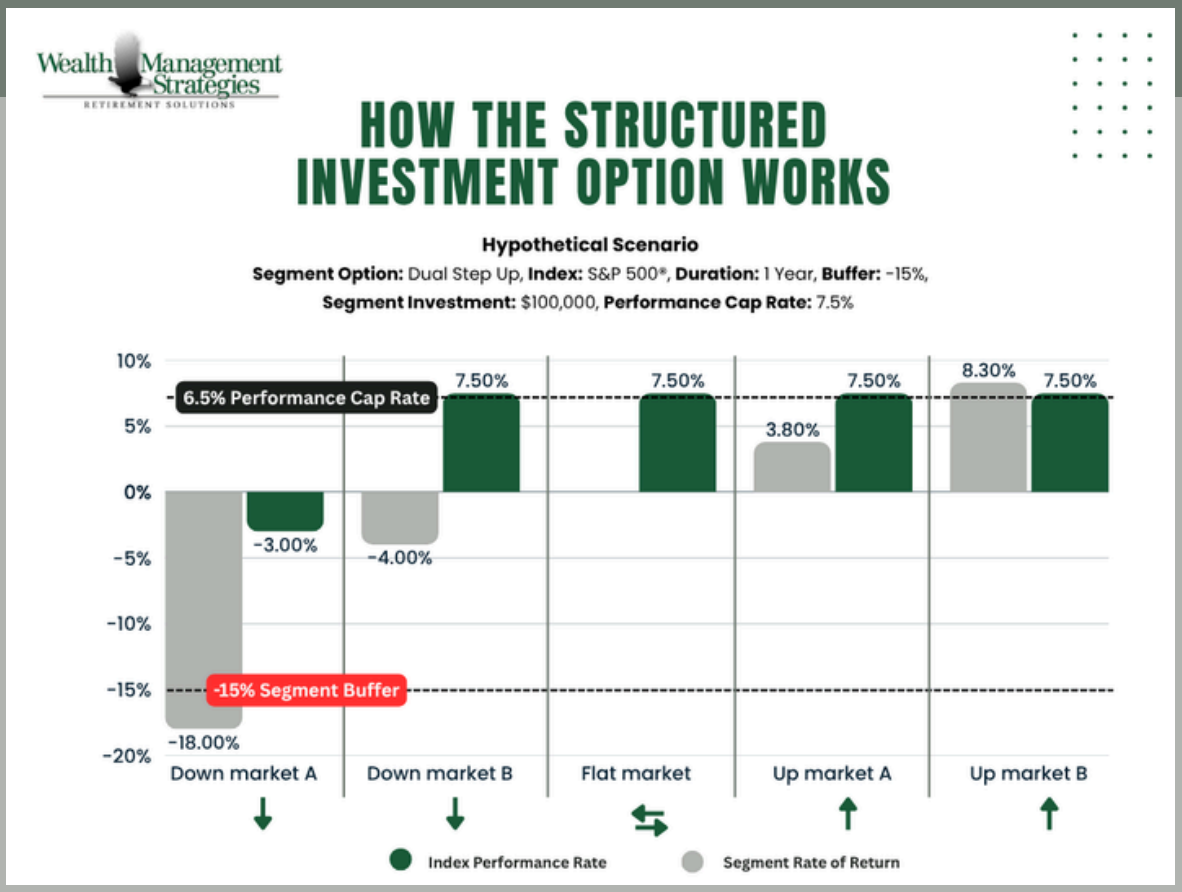
The protection offered by these strategies is generally not unlimited.

Suppose the same hypothetical strategy provides a **15% buffer**. If the underlying index declines 10%, the decline remains within the defined range. But if the index **declines 30%**, the decline has exceeded the protection level.

Depending on the structure, the investor may then absorb losses beyond the applicable buffer. This illustrates one of the most important concepts to understand: ***A buffer is not the same thing as a guarantee against loss.***

A strategy with a 15% buffer does not necessarily mean the investor cannot lose money. Rather, the buffer establishes a defined level of protection under specified circumstances. Losses beyond that level may be borne by the investor.

The illustration below similarly explains that a segment buffer absorbs a specified portion of negative index performance, while declines exceeding the buffer are not absorbed.



How the Structured Investment Option Works (cont)

Hypothetical Scenario* (cont)

Down market A

The Index returns -24%. The Segment Buffer absorbs the first -20% of the loss, leaving you with only a -4.00% loss, before the contract fee.

Segment maturity value:

$96,000

Down market B

The Index returns -4%. Because the return is within the Segment Buffer, the Segment's rate of return, before the contract fee, is 6.50%, which is the Performance Cap Rate.

Segment maturity value:

$106,500

Flat market

The Index returns 0.00%. Because the return is equal to 0%, the Segment's rate of return, before the contract fee, is 6.50% return, which is the Performance Cap Rate.

Segment maturity value:

$106,500

Up market A

The Index returns 3.30%. Because the gain is positive, the Segment's rate of return, before the contract fee, is 6.50%, which is the Performance Cap Rate.

Segment maturity value:

$106,500

Up market 5

The Index returns 7.20%. Because the gain is in excess of the Performance Cap Rate, the Segment's rate of return, before the contract fee, is 6.50%, which is the Performance Cap Rate.

Segment maturity value:

$106,500

**This hypothetical example is for illustrative purposes only. The Structured Investment Option provides a rate of return tied to the performance of a spcific index. The Performance Cap Rate is an assumed rate.*

Understanding the Buffer



The buffer is one of the most important components of a dual-directional or buffered strategy.

A buffer represents the amount of negative market performance the strategy is designed to absorb under its stated terms.

Common hypothetical buffer levels might include:

- 10%
- 15%
- 20%
- 30%

A larger buffer may provide greater downside protection, but the trade-off may include a lower performance cap or other limitations.

The relationship between the buffer and cap is therefore important.

Investors should not evaluate a strategy simply by asking: *"How much protection does it provide?"*

They should also ask: *"What am I giving up in exchange for that protection?"*

That could include potential upside, liquidity, dividends, or other investment characteristics.

Understanding the Performance Cap

The performance cap represents the maximum index performance that may be used to calculate the strategy's return during the applicable measurement period.

In an up market, a dual-directional strategy may participate in some or all of the underlying index's gain.

For example, if the hypothetical cap is 10%:

Underlying Index Return	Hypothetical Strategy Outcome
+5%	+5%
+10%	+10%
+15%	+10%
0%	0%
-5%	Potentially +5%*
-10%	Potentially +10%*
-25%	Losses may apply depending on structure

**Illustrative only. Actual outcomes depend on the specific strategy's terms.*

The cap creates an important trade-off. If markets experience a significant rally, an investor may not participate fully in that upside.

Questions Investors Should Ask Before Considering a Dual-Directional Strategy

- What index or asset is the strategy linked to?
- What is the measurement period?
- What is the performance cap?
- What is the buffer?
- What happens if the market declines beyond the buffer?
- What happens if the investment is sold before maturity?
- Are dividends included?
- What fees and expenses apply?
- Are there surrender charges or withdrawal restrictions?
- How is the investment taxed?
- Is there issuer or insurance-company credit risk?
- What happens if I need access to the money unexpectedly?
- How does this investment fit with the rest of my retirement portfolio?
- What role is this asset intended to play in my overall retirement plan?
- The answers to these questions can be more important than the headline description of the strategy.

This is one reason dual-directional strategies should generally be viewed as defined-outcome strategies, rather than replacements for all traditional equity exposure.

3 Major Types of Dual-Directional Strategies

1. Dual-Directional Buffer ETFs

Exchange-traded funds can use options-based strategies to create predetermined market outcomes within a liquid, exchange-traded structure.

Potential characteristics include:

- Daily liquidity
- Defined outcome periods
- A specified downside buffer
- A predetermined upside cap
- Options-based exposure to an underlying index
- Transparency regarding the stated investment objective and structure

Because ETFs trade throughout the day, their market price can differ from the value investors ultimately receive under the strategy's defined outcome at maturity.

Investors should therefore understand the difference between the **defined outcome at the end of a measurement period** and the market value of the ETF if it is sold before that period ends.

2. Dual-Directional Structured Notes

Structured notes can use options and other derivatives to create highly specific payoff profiles. A dual-directional note may be designed around an underlying index and a predetermined maturity date.

Depending on its terms, a note could establish a: participation rate; maximum return; buffer; barrier; floor; maturity date; or specific formula for calculating the final payment. One important distinction is that structured notes generally represent an obligation of the issuing institution. Consequently, investors need to consider **issuer credit risk** in addition to market risk.

Liquidity is another consideration. A note designed to be held until maturity may not have the same value if sold before maturity. The secondary market may be limited, and the price available before maturity may be substantially different from the amount an investor would receive if the note were held according to its original terms.

3 Major Types of Dual-Directional Strategies (cont)

3. Registered Index-Linked Annuities

Another structure incorporating options-based, defined-outcome strategies is the **Registered Index-Linked Annuity**, commonly referred to as a RILA.

RILAs are insurance contracts designed to provide market-linked growth potential while establishing a defined level of downside protection.

Depending on the contract, an investor may select among different:

- Indexes
- Segment durations
- Buffers
- Caps
- Participation features
- Investment options

The attached material illustrates how segment-based annuity structures can offer different levels of protection and different performance characteristics. It also emphasizes that the protection is limited and that losses exceeding the selected buffer can reduce principal.

Because a RILA is an insurance contract, investors should also evaluate the contract's fees, restrictions, surrender provisions, withdrawal provisions, insurer claims-paying ability and other contractual features.

Dual-directional strategies may offer several potential benefits when used appropriately:

An Additional Way to Participate in Growth	Defined Risk Parameters
Potential Returns During Certain Down Markets	Behavioral Discipline

The Trade-Offs and Risks

No investment structure eliminates risk. Dual-directional strategies simply approach risk differently.

Trade-Off	Risk
Capped Upside	A significant market rally may produce returns above the strategy's maximum cap. The investor generally does not receive the full return of the underlying index once the cap has been reached.
Losses Beyond the Buffer	A buffer only applies to the level specified in the strategy. A severe decline beyond the buffer can result in losses. For example, a 15% buffer does not mean an investor is protected from a 30% decline.
Dividends May Not Be Included	Many index-linked strategies are based on price returns rather than total returns. As a result, investors may not receive the dividends associated with the underlying securities.
Liquidity Considerations	Some strategies contain investment management expenses, contract fees, administrative charges, withdrawal charges or other expenses. These costs can affect actual investor returns.
Tax Considerations	Tax treatment varies depending on the type of investment, account registration and individual circumstances. For example, certain annuity structures provide tax-deferred growth, but distributions may be taxable under applicable tax rules. Investors should evaluate tax consequences with qualified tax professionals when appropriate.

Why These Strategies May Matter More in Retirement

The investment priorities of a 35-year-old investor can be very different from those of a 65-year-old retiree.

For someone decades away from retirement, a significant market decline may simply represent a temporary reduction in portfolio value.

For someone already withdrawing retirement income, the consequences can be more significant.

This is why retirement planning often requires more than simply determining an appropriate stock-and-bond allocation.

A retirement portfolio may need to address several competing objectives:

- **Growth** — assets need the potential to outpace inflation.
- **Protection** — some assets may need greater protection from severe market declines.
- **Income** — retirement expenses must be funded consistently.
- Liquidity — unexpected expenses and opportunities require accessible assets.
- **Taxes** — the amount an investor keeps after taxes matters.
- **Longevity** — assets may need to support a retirement lasting several decades.
- **Legacy** — remaining assets may eventually transfer to a spouse, children or other beneficiaries.



Dual-directional strategies may potentially serve as one component of this broader framework.

Where Dual-Directional Strategies May Fit

A key mistake would be to view a dual-directional strategy as an all-or-nothing investment decision. For many retirement investors, the more relevant question is:

"What role could this strategy play within my overall portfolio?"

For example, a diversified retirement strategy could potentially include different categories of assets designed for different purposes:

Income Assets: Assets positioned to help fund near-term retirement spending.
Growth Assets: Investments designed to provide long-term appreciation and help address inflation and longevity risk.
Protected or Buffered Assets: Strategies designed to provide defined levels of downside protection while retaining some growth potential.
Liquidity Assets: Cash and other readily accessible assets for short-term needs and unexpected expenses.
Legacy Assets: Assets structured around long-term wealth transfer objectives.

The appropriate allocation depends on the investor's objectives, financial circumstances, time horizon, risk tolerance and other factors.

Dual-Directional Strategies Are Not a Substitute for Comprehensive Planning

Investment selection should not occur in isolation. A retirement strategy should begin with the investor's objectives and financial needs rather than with a particular investment product.

For example, an investor approaching retirement may need to consider:

- Desired retirement date
- Current and projected spending
- Social Security
- Pension income
- Retirement account balances
- Taxable investments
- Cash reserves
- Healthcare costs
- Long-term care considerations
- Market risk
- Inflation
- Longevity
- Estate and legacy objectives

Only after these factors are understood can an investor reasonably evaluate whether a particular strategy belongs in the overall plan. A strategy that is appropriate for one investor may be inappropriate for another.

The Bigger Picture

A comprehensive retirement approach can be organized around five interconnected areas:

- **Income** — How will retirement expenses be funded throughout retirement?
- **Growth** — How will assets continue to grow and address inflation and longevity?
- **Taxes** — How can the tax consequences of withdrawals, conversions, gains and distributions be considered as part of the overall strategy?
- **Long-Term Care** — How could a significant healthcare or long-term care event affect the retirement portfolio?
- **Legacy Planning** — How can remaining assets be positioned to support the people and causes that matter most?

*Dual-directional strategies may potentially contribute to the **Growth** and **Protection** components of this framework, but they should be evaluated in the context of the entire retirement plan.*

Conclusion

Retirement investing is not simply about seeking the highest possible return. It is about balancing growth, risk, income, taxes, protection and long-term objectives over a potentially decades-long retirement.

Dual-directional strategies represent an evolving approach to that challenge. By using defined outcome structures, buffers and options-based strategies, they may provide investors with a different way to participate in market growth while potentially creating favorable outcomes during certain moderate market declines.
But there are meaningful trade-offs.

Upside may be capped. Dividends may not be included. Protection may be limited. Significant losses may still occur. Liquidity can vary. Fees and contractual restrictions can affect outcomes. And tax treatment depends on the investment structure and the investor's circumstances.
For these reasons, the most important question is not:

“Is a dual-directional strategy good or bad?” The better question is: “Does this type of strategy make sense for my specific retirement objectives, and what role should it play within my overall plan?”

For investors approaching or living in retirement, understanding how each component of a portfolio is intended to work—and how those components work together—can be an important part of building a retirement strategy designed to provide greater clarity, confidence and financial resilience.

CONTACT US TO LEARN MORE



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Dual-directional, buffered, structured and index-linked strategies can involve substantial risks, including loss of principal. Buffers are limited and do not necessarily protect against all losses. Performance caps can limit participation in market gains. Investment results depend on the specific terms and conditions of the strategy, including the underlying index, measurement period, cap, buffer, fees, expenses, participation methodology and other contractual provisions.

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