

# Generating Better Risk-Adjusted Returns

## Putting It All Together

# Risk Management

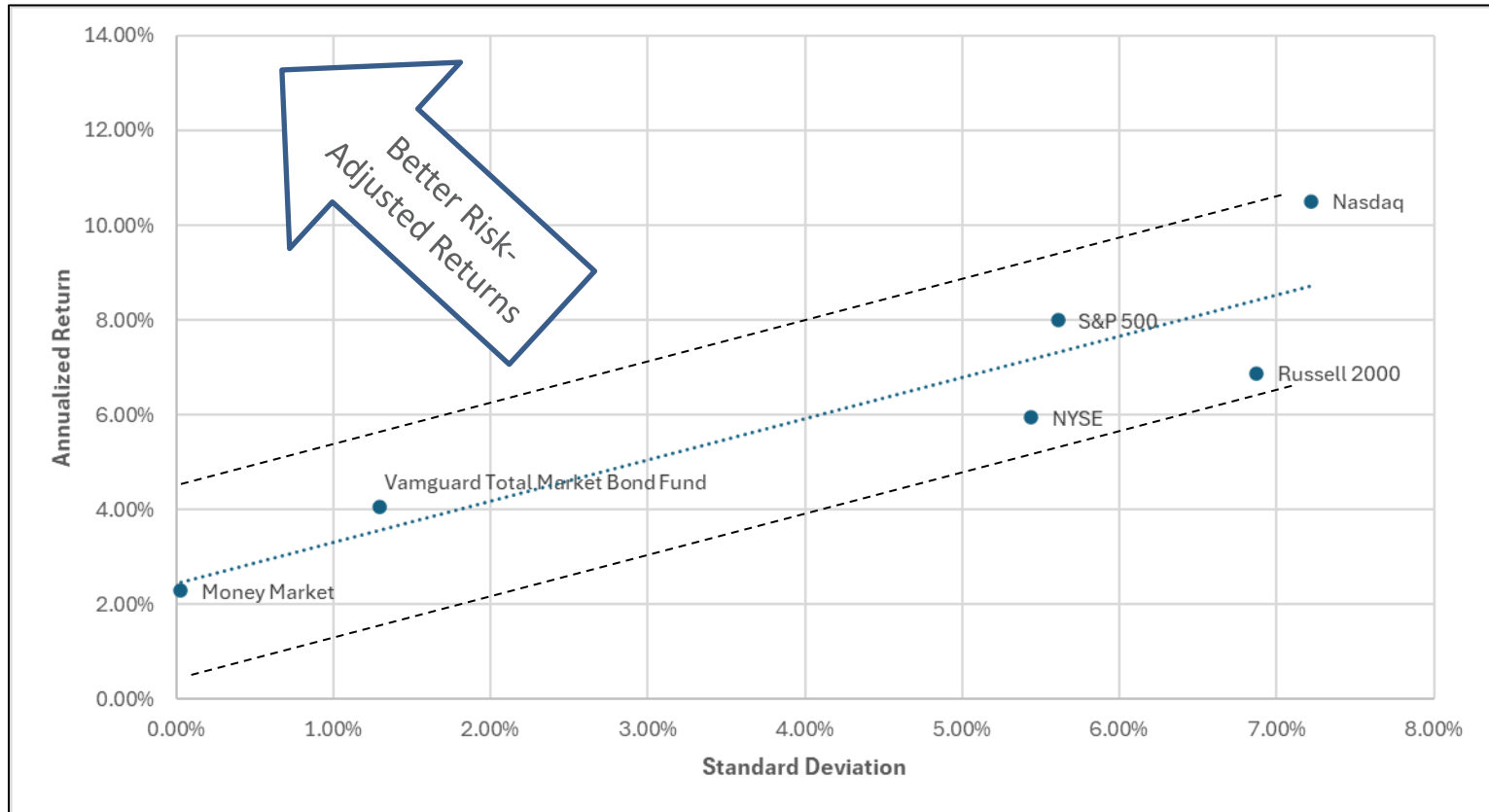
## Know Your Tolerance for Risk

- What are your financial goals?
- What is your investing time horizon?
- What type of loss can you sustain?
- How much time do you have to manage your investments?

By understanding the type of investor you are, you can avoid unacceptable market declines and identify better risk-adjusted return opportunities.

# Risk vs. Reward

12/31/1996 – 12/31/2025



- Plotting standard deviation against annualized return provides investors the ability to visualize the trade-off between risk and return.
- Our goal as investors is to achieve returns outside the long-term, expected return channel.
- Most investors prefer lower volatility, higher returns (i.e. upper left-hand quadrant). These are called better risk-adjusted returns.

# Ulcer Index and Ulcer Performance Index

**Ulcer Index (UI)** is a downside **volatility** metric that incorporates depth and duration of drawdowns. Lower values represent less volatile investments.

**Ulcer Performance Index (UPI)** is a measure of **trend strength** that uses downside volatility. Higher values represent better risk-adjusted returns.



For a detailed handout on how to calculate the Ulcer Index and Ulcer Performance Index please visit:  
[www.rgbcapitalgroup.com/resources](http://www.rgbcapitalgroup.com/resources) and select the UI-UPI Guide.

# How Much Risk Can You Actually Tolerate?

Defined by your tolerance for drawdowns—not return expectations

- Conservative (*low tolerance for drawdowns*)
- Moderate (willing to accept some drawdowns for growth)
- Aggressive (comfortable with large drawdowns and volatility)

If you can't stick with your portfolio during a downturn, it's the wrong portfolio.

# Summary

- Understand your tolerance for risk—**especially your ability to handle drawdowns**
- Align your portfolio with your **goals, time horizon, and need for stability**
- Focus on **risk-adjusted returns**, not just absolute performance
- Use a **disciplined, repeatable process** to guide investment decisions
- Identify funds with **consistent performance and controlled downside risk**
- Apply tools (e.g., **moving averages, momentum, trend**) to help manage exposure
- There is no perfect strategy—**consistency and discipline matter most**

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