

The stock market is much more volatile than most investors realize. Two volatility gremlins--the disproportionate impact of losses and the friction loss from the dispersion of returns--significantly reduce the compounding of returns. Many absolute return-oriented investment strategies recognize this dynamic and seek to enhance investors' compounded returns by providing a more risk-managed and consistent return profile. "Capture" is one way to measure and illustrate the effectiveness and benefit of this approach. Whereas the 'relative return' investor (tracking stock market indexes) will generally experience $100 \%$ of the downside and $100 \%$ of the upside to achieve market returns, the 'absolute return' investor only needs a fraction of the upside when downside losses are limited. The graph above illustrates just how little of the upside is needed to match stock market returns over time and it demonstrates the way that many absolute return strategies exceed stock market returns without having to "beat-the-market" each year...

