At a time when financial and real estate markets are increasingly volatile, it is essential to understand the role of defensive assets within a wealth strategy. These assets help stabilize a strategy and offer opportunities, even in times of uncertainty.

What are defensive assets?
A defensive asset is defined by its ability to withstand fluctuations in the financial and real estate markets. It is generally an strategy that is uncorrelated with markets, helping provide a degree of security without the risk of loss.

There are two categories of defensive assets:

- **Your security fund:** This can represent 6 to 12 months' expenses. It's your parachute, your safety mattress that will enable you to cope with most of life's unforeseen events.

- **Your opportunity fund:** Defensive instruments play a crucial role during periods of opportunity, i.e. when the financial or real estate markets are experiencing significant losses. By holding cash or liquid holdings, you can seize these opportunities to purchase at attractive prices. A study by Franklin Templeton shows that negative years occur on average every three years, underlining the importance of having an opportunity fund. What's more, a good defensive asset should offer above-inflation growth over the long term (in excess of 2.5% per annum), in order to preserve your purchasing power.

Although reassuring, defensive assets carry risks, not least that of losing purchasing power if returns fall below inflation. Over a period of five to ten years, inflation can significantly reduce the real value of your savings if they are not well protected.

Defensive assets for Franco-American customers

The safety fund :
Two tools can help you optimize the management of your security savings:

- United States: The Money Market and short-term bonds.

- In France: Passbooks such as the Livret A and Livret de Développement Durable are safe solutions, although yields are currently less attractive than in the United States.

Opportunity fund
Cash Value Life Insurance is a Strategic Defensive Asset. In addition to a death benefit Cash Value Life Insurance can be a good defensive asset available in the U.S., and particularly advantageous as part of your overall strategy. This life insurance combines two elements:

- Death insurance coverage: Part of the premium paid is used to cover death insurance.

- Cash value: The other part is growing in cash value, building accessible cash value in the form of a cash surrender value.

The advantages of Cash Value Life Insurance are numerous.

- Guaranteed growth: Cash Value Life Insurance offers guaranteed growth on the cash surrender value, with fixed interest rates that work to preserve and increase capital while guaranteeing a return in excess of inflation.

- Penalty-free access to capital: Unlike other forms of savings, accumulated funds can be used without penalty, at any time. Holders of this insurance can access cash for any project without selling assets or incurring additional costs.

- Leverage through pledging: one of the most powerful features of Cash Value Life Insurance is the ability to pledge it as collateral. You can use the built up cash value as collateral to obtain a line of credit. This mechanism allows you to use the funds twice: you let the cash surrender value continue to grow, while using the line of credit to finance investments or cover expenses.

- Tax protection: The cash value of life insurance can grow income tax-free, and the death benefit is often exempt from inheritance tax, giving your heirs a double advantage.

Cash Value Life Insurance plays a crucial role in wealth strategy.
When your assets are growing, Cash Value Life Insurance gives you some flexibility with guaranteed growth, while providing the liquidity to seize opportunities through pledging. In retirement, it could act as a safety belt, if you build substantial cash value this can help allow you to draw on your accumulated value without touching your risky assets, protecting you during periods of financial market downturn.

Finally, in the event of your death, the sum insured paid to your heirs is tax-exempt, especially if you contributed before the age of 70, making it an effective tool for passing on assets.

How can defensive assets be integrated into a wealth strategy?
Defensive assets should be part of any portfolio, whatever your profile. For aggressive individuals, having a pocket of defensive assets can mean having enough liquidity to take advantage of opportunities during market downturns. Your financial representative can help you determine the right balance of defensive assets to suit your objectives.

The importance of liquidity in a long-term strategy
Liquidity is an essential element of a long-term wealth strategy, as it offers immediate flexibility. It allows you to act quickly when opportunities arise, without having to sell assets at a loss.

The role of defensive assets for retirement and inheritance
In retirement, defensive assets can act as a safety belt, potentially enabling you to continue living comfortably even if the markets fall. What's more, certain defensive assets, such as life insurance in the United States, offer attractive inheritance tax advantages, particularly in France when well structured.

Defensive assets can be a key component of a well-balanced wealth strategy. They help provide the stability needed to cope with economic uncertainties. Whether you are in the wealth accumulation phase, or in retirement during the distribution phase, these assets are designed to help enable you to secure your finances and work to optimize your long-term returns.

Evaluating the Performance of a Portfolio of Defensive Assets
It is essential to compare the performance of a defensive portfolio with that of a riskier portfolio in line with your wealth objectives, taking into account protection against risk and the ability to seize opportunities.

One of the most common mistakes made when investing in defensive assets is a lack of diversification and an underestimation of the inflationary impact on long-term returns.

Real estate assets can be considered defensive, particularly when acquired in stable areas and for regular rental income. However, they are not totally immune to market downturns.

Defensive assets therefore play a crucial role in a balanced wealth strategy. They offer indispensable protection against economic uncertainties, while at the same time making it possible to exploit investment opportunities. Whether for long-term growth or to prepare for retirement and succession, they are a fundamental pillar of sound wealth strategies.

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