

October 20, 2025

Boomer Candy is Bad for Your (Portfolio's) Health

By Michael Crook, Chief Investment Officer

A recent article appeared in [Bloomberg News](#) about the proliferation of target outcome investment products, which are typically sold as structured notes or exchange-traded funds. Target outcome strategies are generally based on equity index performance and offer additional yield or limited downside, along with leveraged but capped upside. Bloomberg reporter and previous Mill Creek Livestream guest, [Eric Balchunas](#), coined the more critical term *boomer candy* for these products because they seem to strike a chord with investors seeking principal protection and higher yields at retirement.

Target outcome strategies:

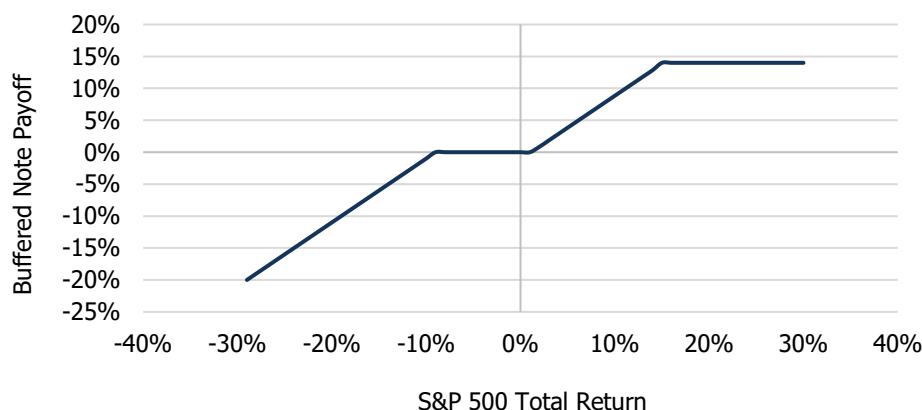
- Exploit a behavioral bias known as *narrow framing*,
- Generally perform worse in absolute and risk-adjusted terms than a simple blend of stocks and cash, and
- Are unlikely to improve portfolio outcomes.

Candy might taste good, but we all know that too much can rot your teeth.

Target Outcome and Narrow Framing

One popular example of boomer candy, buffered strategies, generally offer a downside buffer in exchange for limited upside over a specific period of time. For example, [a recent offering on the S&P 500](#) offers a capped return of 14% and a buffer against the first 10% of losses between September 22, 2025 and September 18, 2026. For investors who worry about equity risk (a legitimate fear - equities can decline 50% or more without much warning) and also recognize that they shouldn't eschew equities entirely, this payoff structure (Fig. 1) can seem like the best of both worlds: equity-like returns and limited downside.

Fig. 1: Payoff structure for typical buffered equity note

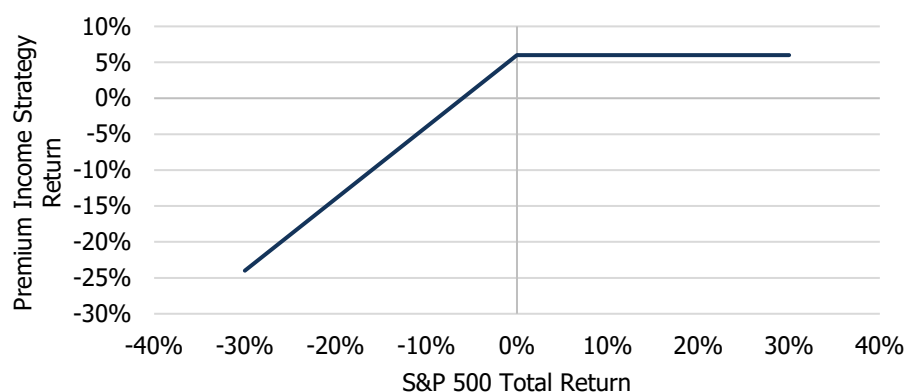


Source: Mill Creek.

However, the above positioning takes advantage of *narrow framing*. Buffered notes might have a role if the choice is between a buffered note, 100% equities, or no equities at all, but that's not a choice investors have to make. We can hold a wide range of assets (cash, bonds, equities, real estate, private equity, etc.) in whatever proportions we choose as the best mix, and outcomes should be judged on the overall performance of the portfolio, not line item by line item. The role for a buffered strategy is marginalized very quickly when viewed through that – *wide framing* - lens.

Premium income strategies are another type of popular target outcome product. These strategies distribute high levels of income (7-8% as of September 30, 2025) by owning a diversified equity portfolio and selling call options on that portfolio (Fig. 2, see next page). By selling call options and collecting the premium (the payment for the option) as yield, investors give up upside in order to achieve the higher yield, but narrow framing can make the tradeoff seem worthwhile until it is compared with other options like owning a simple blend of stocks and cash and selling assets as necessary to produce yield.

Fig. 2: Illustrative payoff for premium income strategy



Source: Bloomberg, Mill Creek.

Case studies

We've selected two case studies in order to illustrate target outcome performance relative to simple portfolios comprised of equities and cash. In both cases, an equity + cash portfolio outperformed the target-outcome strategy on an absolute and risk-adjusted basis historically.

The first case study uses the CBOE S&P 500 Buffer Protect Index Balanced Series, which measures the performance of an investor who purchases a 12-month maturity 10% buffered notes on the first of every month and rolls them into a new note as they mature. The upside cap for each monthly note is set based on market conditions at the time of issuance.

The second case study uses the CBOE S&P 500 BuyWrite Index to measure the performance of an investor who buys the S&P 500 and writes monthly calls against it to generate additional income. This strategy mimics popular premium income strategies marketed to investors.

Case Study 1: Buffered Notes

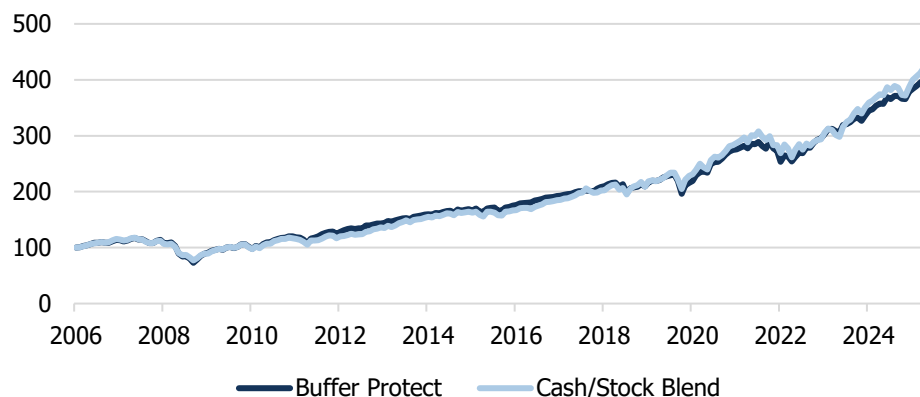
Buffered notes are like Fig Newtons. They seem like a good choice, but when you look at the nutritional value, you might as well just have a Snickers.

Since 2006, a buffered equity strategy has produced an annualized return, volatility, and maximum drawdown of 7.5%, 9.6%, and 38%, respectively. The S&P 500 has produced an annualized return, volatility, and drawdown of 11.1%, 15.3%, and 51%, respectively. While the volatility and drawdown of the buffered strategy were lower than the S&P 500, the risk-adjusted return (Sharpe Ratio¹) was nearly identical at 0.62.

To the surprise of some readers, academic finance is occasionally useful. Portfolio theory tells us that we can add cash to any investment to lower the volatility without impacting the Sharpe Ratio, which means we can add cash to an S&P 500 investment until we create a blend that matches the risk characteristics of the buffered equity strategy (this is academic theory that actually works).

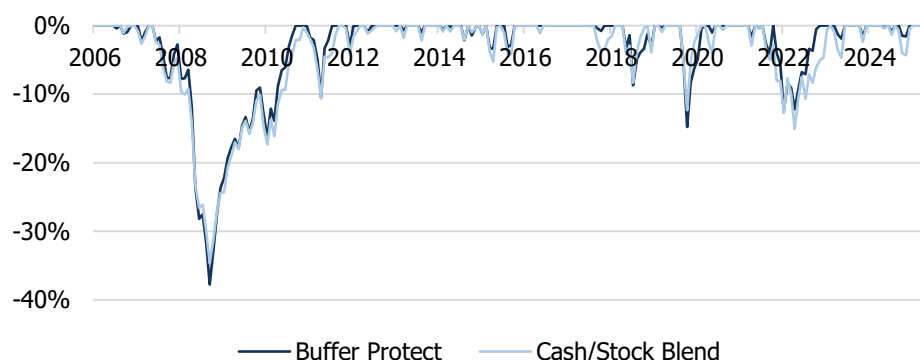
A 37.5%/62.5% cash/stock² blend results in a portfolio with the same historical volatility as the buffered equity strategy, a 0.3% higher annualized return, and a lower maximum historical drawdown (Figs. 3 & 4). In other words, the simple cash/stock blend outperforms the complex options-based buffer strategy in virtually every dimension except unnecessary complexity.

Fig. 3: Growth of CBOE S&P 500 Buffer Protect Index Balanced Series and Cash/Stock blend



Source: Bloomberg, Mill Creek. June 30, 2006-September 30, 2025.

Fig. 4: Drawdowns of CBOE S&P 500 Buffer Protect Index Balanced Series and Cash/Stock blend



Source: Bloomberg, Mill Creek. June 30, 2006-September 30, 2025.

¹ Sharpe Ratio is defined as an investment's average return above cash divided by the volatility of the investment.

² Stock allocation is represented using the S&P 500 Index.

Additionally, ETFs can be used to implement the cash/stock blend that has expense ratios of less than 10bps per year. Target outcome ETF expense ratios are typically closer to 0.85% and structured products typically have all-in embedded fees (selling commissions, issuer hedging and structuring profits, and implied credit spread) of 1-2% per year, which means the simpler solution also has a substantial fee advantage as well. The figures presented in this article are all index-based and do not include product expenses.

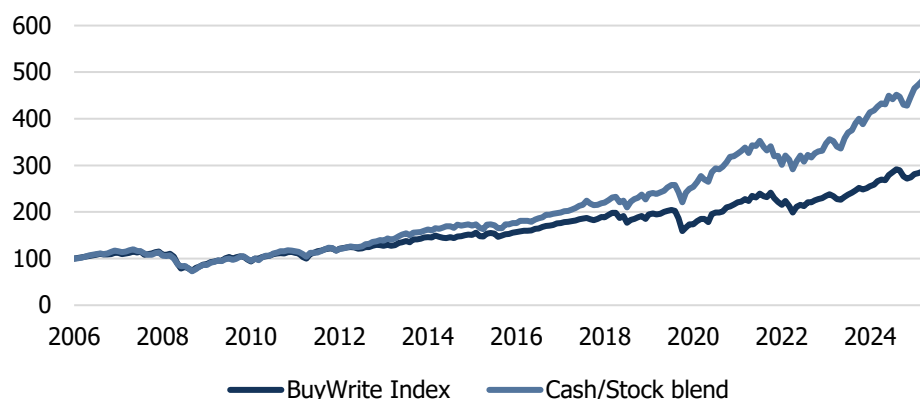
Case Study 2: Premium Income Strategies

Premium income strategies are the [Fun Dip](#) of boomer candy. Pure sugar with a cavity chaser.

Unlike a buffered equity strategy, the Sharpe Ratio of a long-term call-writing strategy is lower than the Sharpe Ratio of the S&P 500, which means a cash/stock blend with a similar volatility has exhibited a higher return historically. Big surprise... selling away equity upside while maintaining most of the downside isn't a smart move!

A cash/stock³ blend of 28%/72% has exhibited approximately the same volatility as the CBOE S&P 500 BuyWrite Index with 2.9% annualized higher returns (Fig. 5). These are substantial gains versus a call writing strategy.

Fig. 5: Growth of CBOE S&P 500 BuyWrite Index and Cash/Stock blend



Source: Bloomberg, Mill Creek. June 30, 2006-September 30, 2025.

A yield-focused investor might push back and point out that they are buying the premium income strategy for yield, not total return. That, once again, is narrow framing. The income that comes from premium income strategies is generally taxed at a higher rate than qualified dividends and long-term capital gains, but that's beside the point. We can just sell a small portion of the portfolio, as necessary, to achieve the same level of distribution while benefiting from the higher overall portfolio return.

A Note on Structured Products

We mentioned earlier that target outcome strategies are issued as structured notes or ETFs. While ETFs are

³ Stock allocation is represented using the S&P 500 Index.

familiar to many investors, structured notes might be a new product for some investors.

Structured notes are pre-packaged investment products that are typically created by investment banks. They typically combine bonds and derivatives to achieve a specific set of outcomes like we've discussed for buffered equity notes. They generally cannot be sold prior to maturity, except on the secondary market at a steep discount.

Importantly, structured notes are debt securities of the investment bank. When you buy a structured note you are lending the bank money, and the payoff will be based on the formula you agreed to in the contract. If the bank files for bankruptcy, you become a general creditor to the liquidation of the bank.

The issuance of structured notes is [an attractive proposition for investment banks](#) for a number of reasons, including: (1) cheaper financing relative to issuing straight bonds, (2) the ability to embed implicit fees into the pricing of derivatives that go into structure, and (3) the ability to "retain" aspects of the engineered payoff that the bank deems attractive.

The last point deserves a bit of explanation. Buffered equity notes are a good example here as well. The investment bank uses bonds and derivatives to replicate the buffer and upside portions of the structured note. However, once the equity index falls below the buffer, the investor suffers all of the downside. The investor has effectively sold uncompensated catastrophe insurance to the investment bank, because the investment bank will commensurately owe less back to the buyer of the structured note if a severe market decline has occurred when the structured note matures. We'll leave it to the reader to decide whether this seems like a fair trade.

Final thoughts through a Wide Frame

We believe investors are well served by keeping these ideas in mind:

- Evaluating risk and return for a specific investment in isolation can lead to suboptimal outcomes,
- All investments should be evaluated based on their role in your broader portfolio,
- Nearly all investors should hold a diversified portfolio of safe and risky investments in proportions that align with their return, volatility, and drawdown preferences.

In other words, there's no free lunch (or candy), in investing. Target outcome products are no exception.

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