

WHITE PAPER

# Common Misconceptions of Buffer ETFs<sup>™</sup>



**Tom O'Shea, CFA**  
Director of Research &  
Investment Strategy



**Tim Urbanowicz, CFA**  
Chief Investment  
Strategist



**Avery Orange**  
Investment Analyst



Since Innovator launched the first Buffer ETF™ in 2018, the category has surpassed the \$50 billion<sup>1</sup> mark, with over 300 different tickers among ETF issuers. Initially, some investors were skeptical, questioning whether the payoff profiles were too good to be true. However, after enduring two bear markets and multiple bouts of volatility, both retail and institutional investors have come to recognize the utility of Buffer ETFs™ as a risk management tool, as evidenced by the category's growth to date.

While an array of well-respected asset managers, institutions, and ETF issuers regard Buffer ETFs™ as an essential part of volatility mitigation in portfolio construction, a select few asset managers have voiced opposition. Interestingly, some of the most vocal critics are active managers whose own funds may have indirectly contributed to the rising inflows to Buffer ETFs™.

In our latest whitepaper, we tackle some of the most common criticisms surrounding Buffer ETFs™, offering a clear and compelling defense of why portfolio managers have been increasingly drawn to their simplicity, transparency, and predictability.

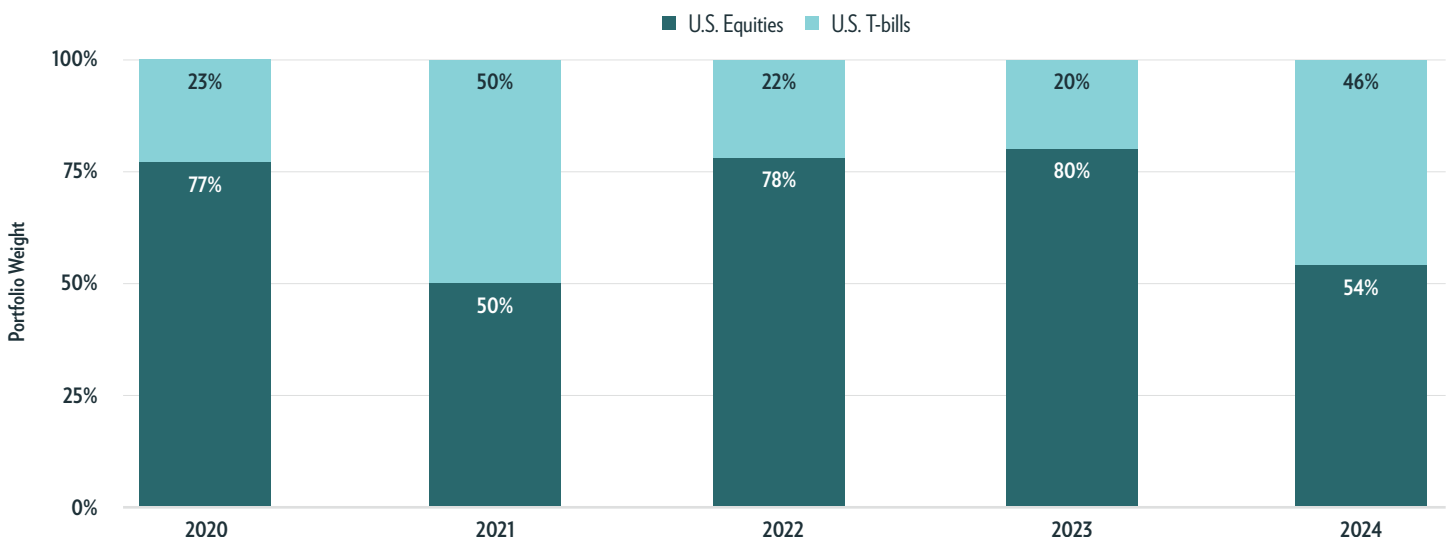
<sup>1</sup> Morningstar as of 2/28/2025. Represented by the Morningstar Defined Outcome category containing 384 ETFs.

## Creating a Buffer Payoff with Stocks and Bonds: Hindsight Bias is Not a Strategy

Some practitioners argue that investors can replicate the risk profile of a Buffer ETF™ by adjusting allocations between stocks and bonds or cash. This argument is often supported by backtests comparing Buffer ETF™ volatility to a hypothetical combination of equities and T-Bills. However, implementing this approach in real-time requires accurate predictions of asset class performance, a feat that has proven nearly impossible. Even highly experienced professionals frequently miss their S&P 500 forecasts by wide margins.

The table below demonstrates the stock/cash allocation required to match the annualized volatility of a 1-year, 9% buffer strategy on the S&P 500. Over the past five years, these allocations have shifted by as much as 30% year-over-year, making a static allocation ineffective for consistent risk management.

### ALLOCATION TO MATCH THE VOLATILITY OF 1-YEAR 9% S&P 500 BUFFER



Source: Bloomberg, Innovator. Data from 12/31/2019 - 12/31/2024. For illustrative purposes only. Not representative of any actual investment. Hypothetical portfolio allocations to the S&P 500 Index and the Bloomberg U.S. Treasury Bill Index which would have matched the volatility of the U.S. Equity Buffer ETF™ - January ("BJAN") during each respective year has been shown. Past performance is not necessarily indicative of future results.



Even if an investor could perfectly allocate between stocks and bonds to match a buffer strategy’s risk profile, they would still face significant unknowns. Constantly adjusting allocations increases the likelihood of tactical errors that can undermine long-term portfolio growth. In our view, a more reliable approach is to incorporate Buffer ETFs™ alongside traditional asset classes in seeking a balance between risk mitigation and upside potential.

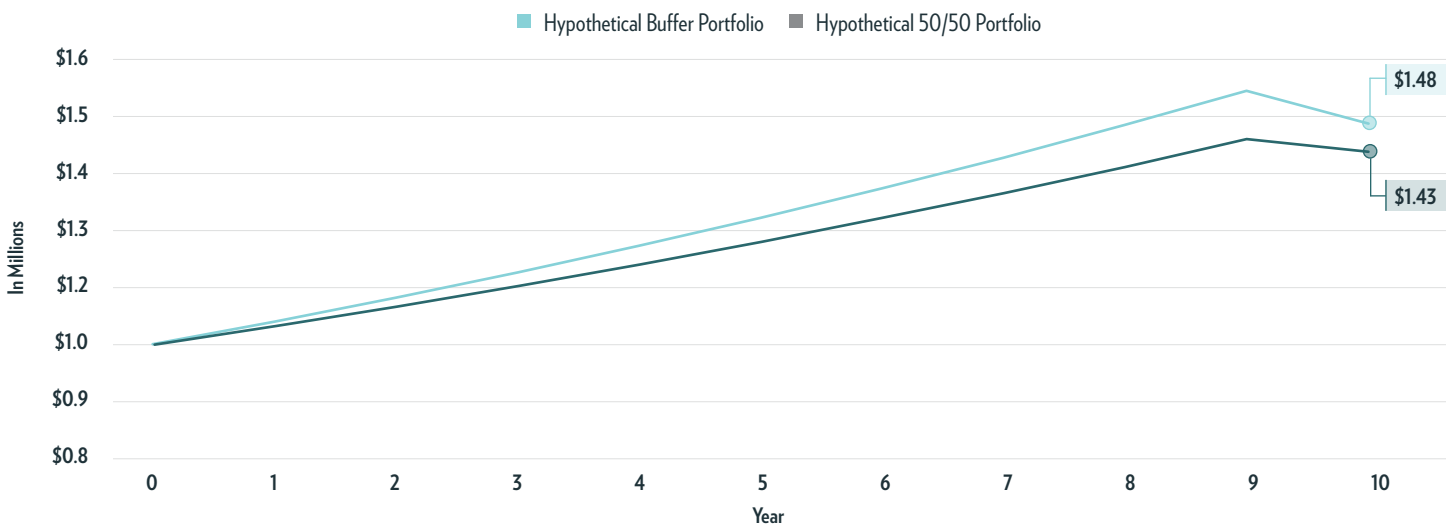
	1-YEAR 9% S&P 500 BUFFER	VOLATILITY MATCHED S&P 500/U.S. T-BILL PORTFOLIO
2020 Annualized Return	12.6%	14.3%
Max Drawdown	-26.2%	-26.2%
2021 Annualized Return	14.1%	14.4%
Max Drawdown	-3.0%	-2.8%
2022 Annualized Return	-10.5%	-13.8%
Max Drawdown	-16.9%	-19.0%
2023 Annualized Return	24.4%	22.1%
Max Drawdown	-8.2%	-8.0%
2024 Annualized Return	19.6%	15.9%
Max Drawdown	-4.8%	-4.7%

Source: Bloomberg, Innovator. See prior chart for volatility match portfolio allocation by year. The allocations to indices do not account for fees and expenses. The Volatility Matched Portfolio information is hypothetical and provided for illustrative purposes only. Not representative of any actual investment. BJAN performance shown. Performance quoted represents past performance, which is no guarantee of future results. Investment returns and principal value will fluctuate, so you may have a gain or loss when shares are sold. Current performance may be higher or lower than that quoted. Visit [innovatoretfs.com/BJAN](https://innovatoretfs.com/BJAN) for current month-end and standardized performance.

Additionally, Buffer ETFs™ may offer tax advantages inherent to the ETF wrapper. In taxable accounts, T-Bill interest is subject to ordinary income tax rates, which can exceed 40% for high-net-worth individuals. In contrast, Buffer ETFs™ allow investors to delay capital gains tax until realization, and when held for more than a year, benefit from the lower long-term capital gains tax rate.

The table below highlights this difference by comparing the 10-year returns of a 50/50 stock/T-Bill portfolio versus a buffered strategy. Both portfolios assume a 5% pre-tax annual return, with T-Bills taxed annually at a 40.8% ordinary income rate, while equity gains and buffered strategy gains are taxed at a 23.8% long-term capital gains rate upon sale. Despite identical pre-tax returns, the final portfolio values differ by approximately 3.5%.

### THE IMPACT OF TAXES: HYPOTHETICAL GROWTH OF \$1M



Source: Innovator Research & Investment Strategy. Hypothetical Buffer Portfolio is made up of 50% equities, 50% buffered equities. Hypothetical Traditional 50/50 Portfolio is 50% equities and 50% investment grade fixed income. Equities grow annually at 6% while bonds and buffered equities grow at 4%. Equities and buffered equities grow until year 10 and gains are taxed at 23.8%. Bonds are taxed annually at 40.8%. For illustrative purposes only.

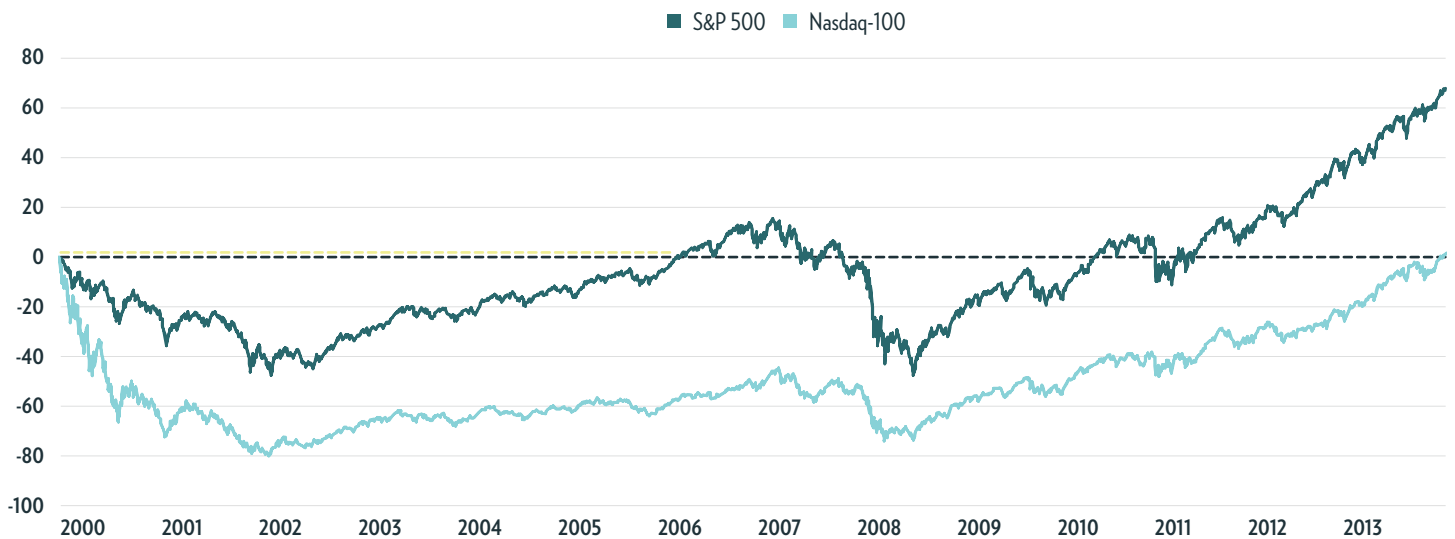


## Theory vs. Reality: The S&P 500 Outperforms Over the Long Term

Critics often argue that over long-time horizons, investing in the S&P 500 generates higher returns than a buffered strategy. While this may be true in certain scenarios, it overlooks several key factors. First, not all investors have long time horizons or unlimited risk tolerance. Investors operate in the real world, where short-term financial needs and risk constraints are paramount.

For retirees or those with short-term spending needs, an all-equity portfolio can be detrimental. Historical market downturns, such as the dot-com crash or the 2008 financial crisis, left many investors in precarious positions, forcing them to withdraw funds at market lows. Recoveries can take years—sometimes over a decade—which is a risk many investors cannot afford to take. The chart below illustrates this, highlighting that the S&P 500 and NASDAQ-100 Indices took 6 and 14 years respectively to recoup their previous highs.

### TECH BUBBLE RECOVERY



Source: Bloomberg, Innovator. S&P 500 Index and NASDAQ-100 Index shown. Data from 9/1/2000 - 6/30/2014. Past performance is not necessarily indicative of future results.

## Buffers Are Not Just an Equity Replacement

While some portfolio managers use Buffer ETFs™ to manage downside risk in equities, they have also become a compelling alternative to traditional bond allocations. In our whitepaper, [From Bonds to Buffers: Why Investors Need to Rethink the 60/40 Portfolio](#), we highlight key advantages:



Bond returns are limited, in part, by their starting yield, effectively limiting long-term returns. **Buffer ETFs™, on the other hand, may offer significantly higher caps while still incorporating downside protection.**



Bond interest is typically taxed at ordinary income rates, whereas **Buffer ETFs™ allow investors to defer gains and harvest long-term capital gains at lower tax rates.**



Bonds are often expected to provide a safety net during equity sell-offs, but the 2022 market downturn proved otherwise. When equities declined by 18%, core bonds (as measured by the U.S. Aggregate Bond Index) fell by 13%. **Buffer ETFs™, by contrast, seek to provide known protection against losses regardless of market conditions.**

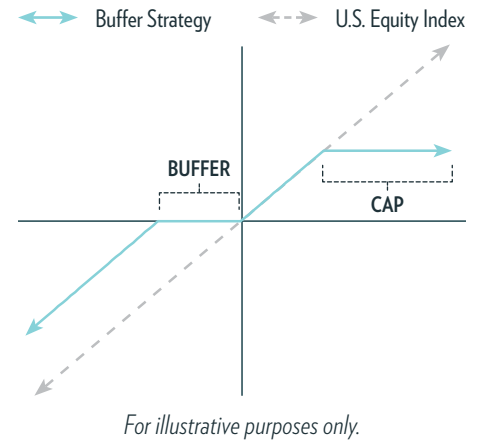


# Traditional Active Management vs. Buffer ETFs™

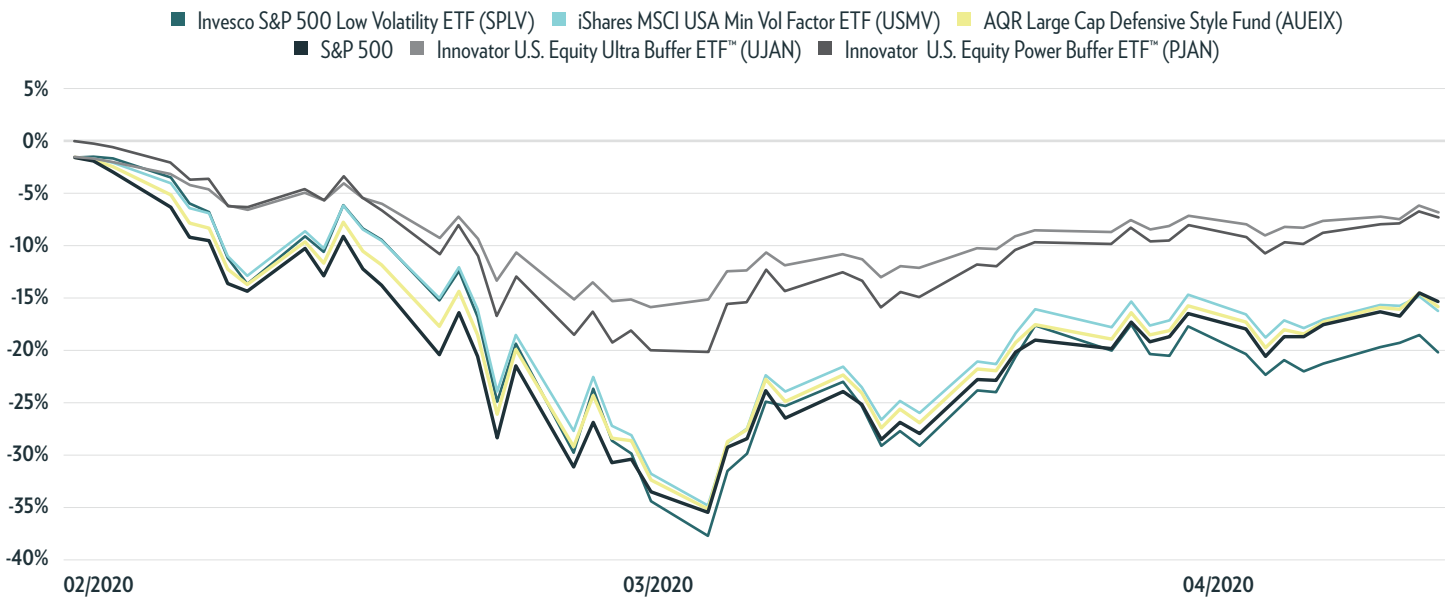
A common criticism of Buffer ETFs™ is their capped upside potential, which some argue places them at a disadvantage compared to traditional active strategies that rely on low-beta, defensive stocks, and low covariance of returns. However, while Buffer ETFs™ have a cap, they are also designed to provide a level of consistency and predictability that many active strategies fail to deliver.

During major drawdowns, such as the COVID-19 market crash, many low-volatility and defensive equity strategies experienced losses comparable to, or even greater than, the broader S&P 500. In contrast, Buffer ETFs™ performed as expected, as the strategies use an options basket to pursue structured risk management.

We believe this consistency is paramount for investors managing risk with a specific purpose in mind. As noted earlier, many investors have short-term goals and ongoing spending needs. When defensive positions fail to deliver on their stated objectives, investors may find themselves unable to meet those needs or achieve their financial goals.



## COVID-19 MARKET CRASH



Source: Bloomberg, Innovator. Data from 2/19/2020 - 4/30/2020. **For standardized performance, please visit page six. For important information regarding the comparison of fund performance, please visit page eight.** Performance quoted represents past performance, which is no guarantee of future results. Investment returns and principal value will fluctuate, so you may have a gain or loss when shares are sold. Current performance may be higher or lower than that quoted. Visit [innovatoretfs.com/performance](http://innovatoretfs.com/performance) for current month-end and standardized performance.

## Conclusion

In our view, Buffer ETFs™ have firmly established themselves as a valuable tool in modern portfolio construction. While critics argue that long-term equity investing provides higher returns, this perspective ignores the diverse needs and risk tolerances of investors. Buffer ETFs™ can serve as a practical risk mitigation tool, designed to offer downside protection while still allowing for growth to a cap. Additionally, their role extends beyond equity replacement, with increasing adoption as a bond alternative for investors seeking the tax efficiency of the ETF wrapper and the higher return potential of equities.

Ultimately, we believe that the rise of Buffer ETFs™ is not a passing trend but a structural shift in how investors approach risk and return. As markets continue to evolve, the demand for investment strategies that provide both stability and opportunity will only grow, reinforcing the enduring appeal of Buffer ETFs™.



STANDARDIZED PERFORMANCE	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	INCEPTION
BJAN NAV	-2.71%	6.97%	8.93%	13.41%	-	11.25%
BJAN Closing Price	-2.75%	7.10%	8.89%	13.55%	-	11.26%
PJAN NAV	-1.74%	6.13%	8.49%	10.53%	-	8.39%
PJAN Closing Price	-1.85%	6.03%	8.39%	10.60%	-	8.38%
UJAN NAV	-2.06%	5.72%	7.32%	8.27%	-	6.93%
UJAN Closing Price	-2.08%	5.65%	7.22%	8.24%	-	6.94%
SPLV NAV	7.18%	15.34%	5.94%	12.02%	9.31%	10.74%
SPLV Closing Price	7.20%	15.37%	5.92%	12.03%	9.31%	10.80%
USMV NAV	5.80%	13.72%	8.36%	13.53%	10.60%	12.37%
USMV Closing Price	5.86%	13.77%	8.36%	13.54%	10.60%	12.33%
AUEIX	4.59%	9.59%	6.19%	14.02%	11.07%	12.62%

Data as of 3/31/2025. **Performance quoted represents past performance, which is no guarantee of future results.** Investment returns and principal value will fluctuate, so you may have a gain or loss when shares are sold. Current performance may be higher or lower than that quoted. Visit [innovatoretfs.com/performance](https://innovatoretfs.com/performance) for current month-end and standardized performance

Shares are bought and sold at market price, not net asset value (NAV), and are not individually redeemable from the fund. NAV represents the value of each share's portion of the fund's underlying assets and cash at the end of the trading day. Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where fund shares are listed.

For SPLV's prospectus, summary prospectus, and current month-end and standardized performance, visit <https://www.invesco.com/us/financial-products/etfs/product-detail?audienceType=Investor&ticker=SPLV>.

For USMV's prospectus, summary prospectus, and current month-end and standardized performance, visit <https://www.ishares.com/us/products/239695/ishares-msci-usa-minimum-volatility-etf>.

For AUEIX's prospectus, summary prospectus, and current month-end and standardized performance, visit <https://funds.aqr.com/funds/equities/aqr-large-cap-defensive-style-fund/aueix#performance>.

	BJAN	PJAN	UJAN	SPLV	USMV	AUEIX
Gross Expense Ratio	0.79%	0.79%	0.79%	0.25%	0.15%	0.38%
Net Expense Ratio	0.79%	0.79%	0.79%	0.25%	0.15%	0.38%
Inception Date	12/31/18	12/31/18	12/31/18	5/5/11	10/18/11	7/9/12



The hypothetical performance information included in this material are intended for illustrative purposes only and do not represent the result of any actual account, investment, or trading. The instruments used in compiling the hypothetical performance involve risks including the possible loss of principal. There is no guarantee that the allocations in stated percentages will result in desired outcomes. Actual investment outcomes will vary and hypothetical performance cannot account for the impact of financial risk in actual trading. Hypothetical performance benefits from a retroactive construction with the benefit of hindsight, all of which can adversely affect actual trading results and performance. This material is intended for financial professionals with the resources to independently analyze hypothetical performance and the financial expertise to understand the risks and limitations of hypothetical performance. Index performance compiled within hypothetical performance results does not account for fees and expenses.

This material is provided for informational purposes only and is made available on an “as is” basis, without representation or warranty. The information herein is only current as of the date indicated and may be superseded by subsequent market events or for other reasons. Innovator is not providing this information as investment advice. Readers should consult with their investment advisers to obtain investment advice and should not rely upon information published by Innovator or any of its affiliates. The information herein represents an evaluation of market conditions as of the date of publishing, is subject to change without notice, and is not intended to be a forecast of investment outcomes. Innovator specifically disclaims all warranties, express or implied, to the full extent permitted by applicable law, regarding the accuracy, completeness, or usefulness of this information, including any forecasts or price targets contained herein, and assumes no liability with respect to the consequences of relying on this information for investment or other purposes.

This material does not constitute tax advice. Investors should consult with tax professionals for tax advice and not rely upon information disseminated by Innovator. Past distributions are not indicative of future distributions. Transactions in ETF shares may result in brokerage commissions and will generate tax consequences. Investors should consider their current and anticipated investment horizon and income tax bracket when making an investment decision as illustrations herein do not reflect these factors. This material assumes a long-term capital gains tax rate of 23.8% and an ordinary income tax rate of 40.8%, each of which is inclusive of the Net Investment Income Tax Rate of 3.8%.

**The Funds have characteristics unlike many other traditional investment products and may not be suitable for all investors. For more information regarding whether an investment in the Funds is right for you, please see “Investor Suitability” in the applicable prospectus.**

The Funds face numerous market trading risks, including active markets risk, authorized participation concentration risk, buffered loss risk, cap change risk, capped upside return risk, correlation risk, liquidity risk, management risk, market maker risk, market risk, non diversification risk, operation risk, options risk, trading issues risk, upside participation risk and valuation risk. For a detail list of fund risks see the prospectus.

**Fund shareholders are subject to an upside return cap (the “Cap”) that represents the maximum percentage return an investor can achieve from an investment in the Funds for the Outcome Period, before fees and expenses. If the Outcome Period has begun and the Fund has increased in value to a level near to the Cap, an investor purchasing at that price has little or no ability to achieve gains but remains vulnerable to downside risks. Additionally, the Cap may rise or fall from one Outcome Period to the next. The Cap, and the Fund’s position relative to it, should be considered before investing in the Fund. The Funds’ website, [www.innovatoretfs.com](http://www.innovatoretfs.com), provides important Fund information as well information relating to the potential outcomes of an investment in a Fund on a daily basis.**

**The Funds only seeks to provide shareholders that hold shares for the entire Outcome Period with their respective buffer level against reference asset losses**

**during the Outcome Period. You will bear all reference asset losses exceeding the buffer. Depending upon market conditions at the time of purchase, a shareholder that purchases shares after the Outcome Period has begun may also lose their entire investment. For instance, if the Outcome Period has begun and the Fund has decreased in value beyond the pre-determined buffer, an investor purchasing shares at that price may not benefit from the buffer. Similarly, if the Outcome Period has begun and the Fund has increased in value, an investor purchasing shares at that price may not benefit from the buffer until the Fund’s value has decreased to its value at the commencement of the Outcome Period.**

**There is no guarantee the Funds will be successful in providing the sought-after protection. If the Outcome Period has begun and the Underlying ETF has increased in value, any appreciation of the Fund by virtue of increases in the Underlying ETF since the commencement of the Outcome Period will not be protected by the Buffer, and an investor could experience losses until the Underlying ETF returns to the original price at the commencement of the Outcome Period.**

These Funds are designed to provide point-to-point exposure to the price return of the Reference Asset via a basket of Flex Options. As a result, the ETFs are not expected to move directly in line with the Reference Asset during the interim period.

Investors purchasing shares after an Outcome Period has begun may experience very different results than funds’ investment objective. Initial outcome periods are approximately 3-months, 6-months, 1-year, or 2-years beginning on the Funds’ inception date. Following the initial Outcome Period, each subsequent outcome period will begin on the first day of the month the fund was inceptioned. After the conclusion of an Outcome Period, another will begin.

**The Funds are not equivalent to cash or bonds. Buffer ETFs™ do not provide income and may not be a suitable alternative to bonds. An investment in Buffer ETFs™ could involve significant risks not associated with Bonds or cash.**

**FLEX Options Risk.** The Funds will utilize FLEX Options issued and guaranteed for settlement by the Options Clearing Corporation (OCC). In the unlikely event that the OCC becomes insolvent or is otherwise unable to meet its settlement obligations, the Funds could suffer significant losses. Additionally, FLEX Options may be less liquid than standard options. In a less liquid market for the FLEX Options, the Funds may have difficulty closing out certain FLEX Options positions at desired times and prices. The values of FLEX Options do not increase or decrease at the same rate as the reference asset and may vary due to factors other than the price of reference asset. Innovator is not providing this information as investment advice.

*The Funds’ investment objectives, risks, charges and expenses should be carefully considered before investing. The prospectus and summary prospectus contain this and other important information, and it may be obtained at [innovatoretfs.com](http://innovatoretfs.com). Read it carefully before investing.*

**Investing involves risks. Loss of principal is possible.** Innovator ETFs® are distributed by Foreside Fund Services, LLC.

The following marks: Accelerated ETFs®, Accelerated Plus ETF®, Accelerated Return ETFs®, Barrier ETF®, Buffer ETF™, Defined Income ETF™, Defined Outcome Bond ETF®, Defined Outcome ETFs™, Defined Protection ETF®, Define Your Future®, Enhanced ETF™, Floor ETF®, Innovator ETFs®, Leading the Defined Outcome ETF Revolution™, Managed Buffer ETFs®, Managed Outcome ETFs®, Step-Up™, Step-Up ETFs®, 100% Buffer ETFs™ and all related names, logos, product and service names, designs, and slogans are the trademarks of Innovator Capital Management, LLC, its affiliates or licensors. Use of these terms is strictly prohibited without proper written authorization.

Copyright © 2025 Innovator Capital Management, LLC. All rights reserved.



	<b>OBJECTIVES</b>	<b>KEY RISKS</b>	<b>LIQUIDITY</b>
<b>SPLV</b>	SPLV is a passively managed fund that seeks to track the investment results (before fees and expenses) of the S&P 500 Low Volatility Index. This index is designed to measure the performance of approximately 100 securities in the S&P 500 Index that have historically exhibited the least volatility. Volatility is measured based upon realized volatility using price return data for one trailing year leading up to each index rebalance date. Component securities are weighted by the inverse of their volatility with the least volatile stocks receiving a higher weight.	SPLV is subject to non-correlation risk to the extent it experiences tracking error relative to its underlying index. Additionally, the fund is subject to market risk, index risk, equity risk, mid-capitalization company risk, industry concentration risk, issuer-specific changes risk, non-diversification risk, authorized participant concentration risk, market trading risk, and operational risk, among others.	As an ETF, SPLV trades on exchange. Consequently, market participants are able to source liquidity through both primary and secondary markets.
<b>USMV</b>	USMV is a passively managed fund that seeks to track the investment results (before fees and expenses) of the MSCI USA Minimum Volatility Index. The MSCI USA Minimum Volatility Index has been designed to measure the performance of large- and mid-capitalization equity securities listed on U.S. stock exchanges that, in the aggregate, have lower volatility relative to the large and mid-cap U.S. equity market. This index uses a rules-based methodology in seeking to optimize the MSCI USA Index to produce a portfolio that exhibits the lowest absolute volatility.	USMV is subject to non-correlation risk to the extent it experiences tracking error relative to its underlying index. Additionally, the fund is subject to low volatility risk, equity securities risk, market risk, asset class risk, authorized participant concentration risk, concentration risk, cybersecurity risk, financial companies risk, issuer risk, management risk, market trading risk, and operational risk, among others.	As an ETF, USMV trades on exchange. Consequently, market participants are able to source liquidity through both primary and secondary markets.
<b>AUEIX</b>	AUEIX seeks total return consisting of capital appreciation and income. In doing so, it pursues a “defensive” investment style designed to provide downside protection with upside potential through active stock selection, risk management, and diversification. The fund’s adviser uses quantitative models that combine statistical measures of risk with active management focused on improving the portfolio’s quality characteristics and additional criteria forming the adviser’s security selection process.	The fund is not intended to form a complete investment program. The fund’s adviser believes that the fund is more appropriate for long-term investors who can bear the risk of short-term fluctuations. The fund is also subject to common stock risk, counterparty risk, derivatives risk, futures contract risk, hedging transactions risk, manager risk, market risk, model and data risk, tax-managed investment risk, and volatility risk, among others.	Investors in domestic mutual funds may redeem their investment on any business day. While many mutual funds generally satisfy redemptions within a few business days, mutual funds may take up to seven business days to satisfy redemption requests.
<b>PJAN</b>	PJAN seeks to provide investors with returns that match the SPDR S&P 500 ETF Trust (SPY), to its current upside cap of 12.03% (before fees and expenses) while providing a buffer against the first 15% (before fees and expenses) of SPY losses over its Outcome Period. There is no guarantee that the pre-determined outcomes sought by the fund, which include the buffer and the cap, will be realized.	The outcomes that PJAN seeks to provide may only be realized if you are holding shares on the first day of the Outcome Period and continue to hold them on the last day of the Outcome Period, approximately one quarter. Please see the disclosures herein for a more fulsome discussion of PJAN’s risks.	As an ETF, PJAN trades on exchange. Consequently, market participants are able to source liquidity through both primary and secondary markets.
<b>UJAN</b>	UJAN seeks to provide investors with returns that match the SPDR S&P 500 ETF Trust (SPY), to its current upside cap of 11.81% (before fees and expenses) while providing a buffer against SPY losses between 5% and 35 % (before fees and expenses) over its Outcome Period. There is no guarantee that the pre-determined outcomes sought by the fund, which include the buffer and the cap, will be realized.	The outcomes that UJAN seeks to provide may only be realized if you are holding shares on the first day of the Outcome Period and continue to hold them on the last day of the Outcome Period, approximately one quarter. Please see the disclosures herein for a more fulsome discussion of UJAN’s risks.	As an ETF, UJAN trades on exchange. Consequently, market participants are able to source liquidity through both primary and secondary markets.