



# Reinsurance programs need to beware of the high cost of timing the market

*Avoiding volatility can often result in missing market rebounds and investment underperformance.*

Reinsurance participation structures (CFCs) operate with long-term horizons, even though the cession activity and account assets are the result of monthly production cycles. This disconnect can steer CFC owners toward short-term caution—but that caution may come with a long-term cost.

As Jim Wehner, Institutional Investments, BOK Financial®, explains: "In CFCs, the risk isn't volatility, it's the temptation to try and eliminate investment risk when markets experience significant dislocations. That's exactly when rebound days occur and positive investment performance is achieved."

Over the long run, investing in stocks produces returns above inflation, but those gains come with meaningful sell-offs. However, it's important to remain calm—and on course—when sell-offs do occur. Data shows that the strongest market days—the ones that power long-term compounding—often occur during or just after periods of stress. That's why market timing so often backfires.

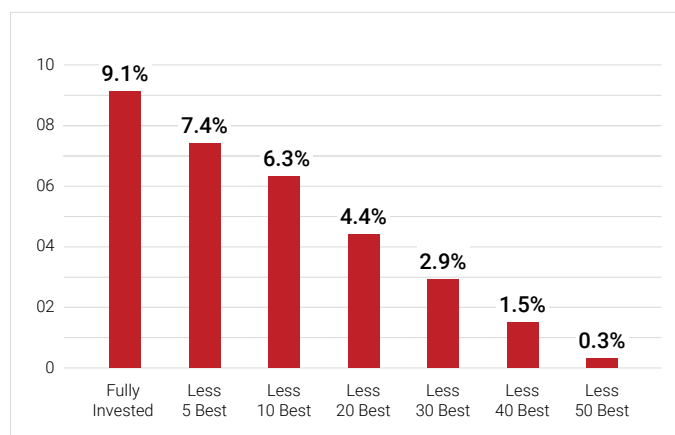
Steve Wyett, chief investment strategist for BOK Financial, underscores this point: "Having a disciplined plan and sticking to it has been good advice for a long time. Understanding the level of risk one can tolerate is important in a world where risks are always present, and the ability to achieve longer-term financial goals is difficult without accepting some level of risk."



The numbers say it all. As the below chart, created using data from Strategas, shows, an investor fully invested in the S&P 500 over a 30-year window achieved a 9.1% compound annual return. Missing only the five best days dropped that figure to 7.4% and missing the 50 best days—less than 1% of all trading days—drove cumulative returns close to zero.

For CFC reinsurance programs, where investment returns assist with lowering loss ratios and help support surplus distributions, the difference is substantial. As Wehner puts it: “The cost of mistiming isn’t theoretical. It shows up in slower surplus growth and reduced surplus releases.”

**S&P 500 COMPOUND ANNUAL GROWTH RATE**



## Discipline over prediction

CFC reinsurance portfolios generally rely on high-quality fixed income for stability and liquidity, enhanced by smaller allocations to equity exposure to assist with diversification and longer-term growth. When volatility rises, CFC owners often feel pressure to reduce risk. Yet those are the moments when the market frequently delivers its best days. Wehner emphasizes that it is all about time in the market, not timing the market: “The most high-performing programs don’t dodge volatility; they continue to invest during these

times. Planning for any additional liquidity events in the CFC helps avoid having to sell existing assets at inopportune times while continuing to capture the market recovery days.”

Wyett reinforces the mindset: “Staying disciplined is hardest when it’s needed most. Yet always keeping risk management at the forefront of a process helps an investor weather the inevitable negative periods in a way in which they can stay in the game.”

## Why the stakes are high in reinsurance

No one likes missing out on good market days, but for CFC programs, the consequences tend to be greater. Indeed, for CFC portfolios, the downstream effects may extend well beyond a single quarter:

- **Surplus growth** slows, delaying the program’s ability to compound capital.
- **Dealer distributions** can be reduced due to weaker investment performance.
- **Strategic alignment** with dealership growth ambitions becomes harder to sustain.

“Surplus capital is your CFC program’s strategic advantage,” Wehner explains. “A consistent investment process grows that surplus over time, so you can deploy it where opportunities present themselves. The CFC surplus assets can be utilized by acquiring new points, fund in-store improvements or other investments.”

## The bottom line

CFC programs succeed when investment strategy supports long-term surplus growth—not short-term emotional comfort. Remaining invested through volatility helps capture the recovery days that drive compounding. In Wyett’s words: “Avoiding one risk is the acceptance of another form of risk.”



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