WEALTH SERVICES

Understanding the value of asset allocation

White Paper Prepared by

Rob Varner
President, Synovus Securities, Inc.

Blake Robinson, CFP®, CEPA®
Supervisor, Financial Planning
Synovus Securities, Inc.

08/2024

WEALTH SERVICES

What makes an investment portfolio **successful?**

Studies have shown the answer is asset allocation. In fact, how your portfolio is allocated across asset classes can influence results more than other decisions, such as which securities you hold or when you enter or exit the market.

The ideal asset allocation strategy is one that reflects your specific investment goals, time frame and tolerance for risk, as well as your liquidity needs and any legal restrictions or other investment criteria. The more you and your advisor can customize your asset allocation strategy, the more likely you are to reach your goals.

Contents

Balancing risk and return 2

Understanding your risk/reward profile 4

Considering your options 8

Putting it all together 15

Balancing **risk** and **return**

Every investment involves some degree of risk — that is, the potential for loss — in exchange for potential rewards.

Stocks

While stocks have historically produced the highest returns, they **have shown the most short-term volatility**.

Bonds

Bonds have less historical price fluctuation than stocks, but typically also **deliver lower returns**.

Cash equivalents

Cash equivalents are considered the safest asset class because their value rarely changes, but they **generate only modest returns**. These include:

- Certificates of deposit (CDs)
- Treasury bills
- Money market accounts

While it is not possible to avoid all risks, having a proper asset allocation can help lower the overall risk of a portfolio and provide competitive market returns.

Balancing **risk** and **return**

Beyond diversification: Investing efficiently

The terms *asset allocation* and *diversification* are often used interchangeably, but they aren't synonymous.

Asset allocation involves diversifying your investments strategically by determining the optimal amount to invest in different asset classes to produce the most efficient portfolio — that is, the one that gives you the opportunity to achieve the highest return possible for a given level of risk.

Diversification means investing in multiple securities to spread risk. It also refers to investing in different types of securities. Diversification is effective at lowering risk because the value of investments, industries and companies tend to not move in the same direction at the same time.

You can think of diversification as the eggs in your proverbial basket, with allocation as the baskets themselves.

Smoother returns help weather market volatility

Asset allocation cannot eliminate the risks of investing, but it can temper the swings in your portfolio's value. Asset classes are subject to a variety of influences, but not necessarily the same ones at the same time, so they react differently. Fluctuations in one area may be offset by strong performance in another, smoothing out returns over time. This smoothing can encourage you to stay with your strategy through good markets and bad. Keep in mind that smoother returns are relative. It's important for your asset allocation strategy to reflect how much volatility you are comfortable with, as well as your investment time horizon.

Asset allocation >	Stocks	Bonds	Cash equivalents
Diversification examples >	• Large Cap • Mid Cap • Small Cap • International Developed • Emerging Market	• Government bonds • Corporate bonds • Municipal bonds • Treasury bonds • Savings bonds	• CDs • Short-term treasury bills • Commercial paper • Money market funds

For illustration purposes only.

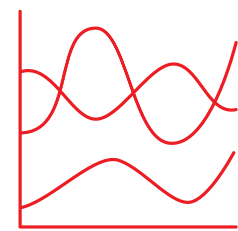
Understanding your **risk/reward** profile

Your asset allocation strategy will balance your return expectations with your risk tolerance, resulting in a personalized portfolio. These questions can help you understand what direction your strategy should take and can serve as a foundation for discussions.

What is your primary investment goal? What are your secondary goals?
How soon will you need to use the money you are investing? Do you have an expected dollar value for the portfolio at the conclusion of the investment period?
Do you expect to use your portfolio to generate current income? Do you expect a particular return from your portfolio each year?
Have you invested in stocks before? Bonds? How knowledgeable would you say you are?
How much negative return (loss) are you comfortable with in a one-year period? A six-month period? A three-month period? A one-month period?
How much consecutive negative performance would make you uncomfortable?
Which is more preferable to you? A portfolio with:
• Very low return potential but very little risk potential
• Moderate return potential and moderate risk potential
• High return potential and commensurately high risk potential
What would make you want to sell your investments and hold only cash in your portfolio?

Balancing **risk** and **return**

Giving meaning to the numbers



Building a targeted asset allocation strategy requires understanding the risk-adjusted performance of the underlying asset classes. Looking at return or yield alone isn't enough. Investors can use a variety of statistical measures to evaluate asset classes, as well as individual investments, in absolute and relative terms.

Your advisor can explain these terms in greater detail, but we've included them here for your reference.

Correlation

Correlation describes the relationship between two or more variables. Asset classes or investments that are highly correlated tend to move in sync, while those with a low correlation don't. An asset allocation plan that combines assets whose expected returns aren't highly correlated enables the strong performance of one class to offset the weak performance of another at any given time.

Standard deviation

Standard deviation is one of the most common methods for quantifying risk. It measures the degree to which an investment's return varies from its historical average, reflecting upside and downside volatility. Standard deviation is a useful statistic, since it can be used to compare any type of security to another.

Balancing **risk** and **return**

Beta

Like standard deviation, beta is commonly used to describe the risk of a security. Rather than measuring an investment's own historical volatility, however, it measures its volatility relative to a benchmark. A beta greater than 1.0 means the investment is more volatile than the benchmark. Conversely, a beta less than 1.0 indicates lower volatility than the index. For example, a stock with a beta of 1.0 should track the market, but a stock with a beta of 1.1 should be more volatile than the market on either the upside or the downside.

Alpha

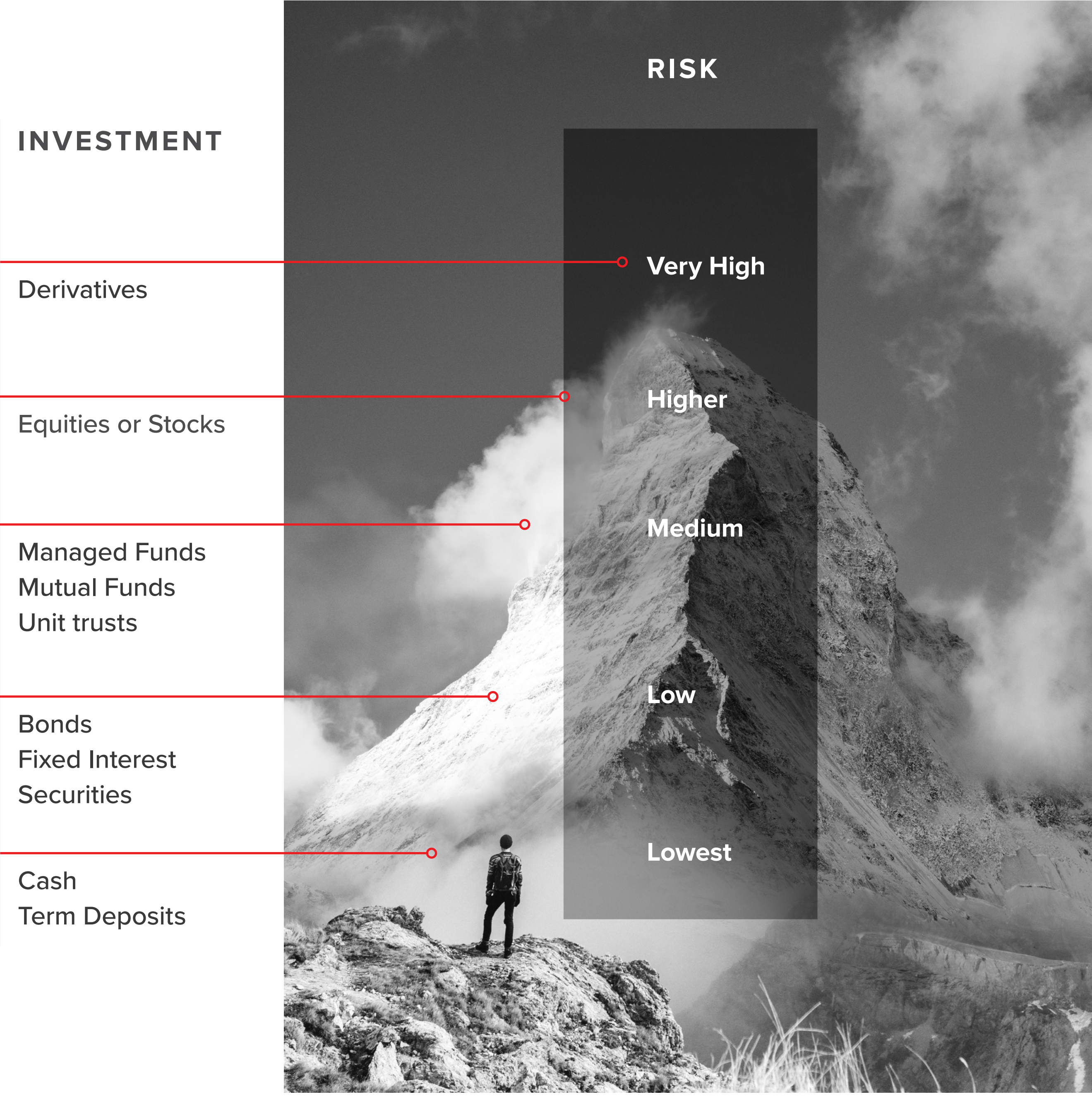
Alpha describes the difference between a portfolio's expected return and its actual return and is sometimes used to represent the value provided by active portfolio management. An alpha of 1.0 means the investment performed 1% better than the market. Think of alpha as the extra return earned for taking a risk rather than accepting market return.

Sharpe ratio

The Sharpe ratio measures how much incremental return an investment provides for each unit of risk assumed. It is determined by dividing an investment's annualized return in excess of a risk-free return (such as the return on a 90-day Treasury bill) by the investment's standard deviation. The Sharpe ratio is a useful tool for comparing the risk/reward profile of different investment strategies.

Balancing **risk** and **return**

An effective asset allocation strategy doesn't attempt to avoid risk entirely, but to seek a well-calibrated balance between risk and return.



For illustration purposes. Talk with a Synovus financial advisor to create a sound investment strategy and choose the types of investments that best fit your unique financial goals and risk tolerance.

Considering your **options**

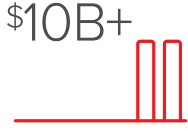
A successful asset allocation strategy starts with determining the appropriate mix of stocks, bonds and cash equivalents in a portfolio.

Looking at these broad asset class categories is only the beginning. Each has its own subcategories. Depending upon your particular circumstances, a number of alternative asset classes may be right for you.

Taking stock of stocks

All stocks can be organized by market capitalization, style and issuing country. Each of these categorizations has its own risk and return characteristics. By evaluating all three as they pertain to a particular stock investment, you can gain a better understanding of the role it may play in your portfolio. **Market capitalization** indicates the size of the company issuing a stock and represents the total value of outstanding shares.

$10B+



Large cap stocks are from companies with market capitalizations of approximately $10 billion or more. Because they tend to be issued by established, well-known firms, large cap stocks can be less volatile than their counterparts and often pay regular dividends to shareholders.

$2B - $10B

Medium capitalization (or mid cap) stocks are from companies with market capitalizations between approximately $2 billion and $10 billion, although the ranges may vary. Mid caps can be former large company stocks that have seen a decline in earnings or companies that are beginning to mature but are still growing.

<$2B

Small cap stocks come from companies with market capitalizations that are less than $2 billion. These companies are usually entrepreneurial, start-up companies on a fast growth track. As a result, their stocks have the potential for the highest returns but experience greater volatility than large cap or mid cap stocks.

Considering your **options**

Investment style

Investment style is another differentiating factor when it comes to stocks. Portfolio managers are often characterized as following either a growth-oriented or value-oriented style; this indicates which quantitative and qualitative criteria they look for when they select securities. (Note that some managers blend the two styles.)

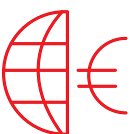
Growth and value stocks tend to perform well during different stages of the market cycle, so it can be beneficial to hold both.

Growth and value stocks

tend to perform well during different stages of the market cycle.

Growth companies have demonstrated above-average earnings expansion. Their stock prices reflect this proven ability to generate returns.

Value stocks can be priced low relative to the company's underlying worth. They typically pay higher dividends than growth stocks, as they are more focused on returning profits to investors through dividends and stock buy-backs rather than reinvesting into R&D and/or company expansion.

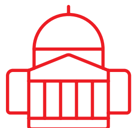


International stocks provide another opportunity for diversification because foreign stock markets do not always move in tandem with the U.S. market. While foreign securities are subject to special risks related to currency fluctuations, political situations and other issues, adding some exposure to foreign markets may increase portfolio returns while reducing overall risk.

Bonds for income and balance

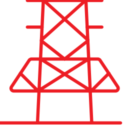
Bonds are debt securities issued by corporations, the federal government and its agencies, state and local governments, and foreign governments. They produce regular income for investors. In general, bonds of high quality or with short maturities will produce lower yields than longer-term or lower-quality bonds.

Considering your **options**

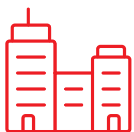


Government securities issued by the U.S. government are backed by its full faith and credit against default and are considered very safe investments. They are further classified by the length of time before they mature.

- Treasury bills – mature in less than a year
- Treasury notes – mature in one to 10 years
- Treasury bonds – have maturities of 10 years or more

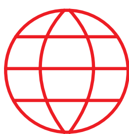


Municipal bonds (or munis) are issued by states, cities, towns or other municipalities. Interest earned from municipal bonds is free from federal tax and sometimes from state and local taxes. Although their yields are typically lower than those of taxable bonds, munis can be very attractive on a taxable-equivalent basis for high tax brackets.



Corporate bonds are debt securities issued by corporations. They are further categorized by investment quality. Investment-grade bonds have credit ratings of BBB or higher, while high-yield bonds have ratings of BB or lower. Investment-grade bonds entail less risk of default. High-yield bonds, as their name implies, offer higher yields in exchange for the greater credit risk they represent.

Because corporations, regardless of credit rating, have a greater risk of defaulting than governments, corporate bonds as a whole tend to have higher yields than government bonds. One more point to know: Some corporate bonds are convertible, meaning the holder can convert the par amount of the bond – that is, the face value – into shares of company stock according to certain specifications.



International bonds issued by foreign countries or companies provide an alternative for investors looking to add another level of diversification and the possibility of enhanced returns. Like international stocks, they involve certain risks not present in domestic securities.

Considering your **options**

Asset return annualized - 10 years of the best and worst

This chart shows annual returns for selected asset classes ranked from best to worst within each calendar year over the last 10 years. Return rankings change dramatically from year to year. While diversification cannot eliminate the risks of investing, it illustrates why investing across a variety of asset classes could help.

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Annualized
Japan equities 9.9%	High yield 14.3%	China equities 54.3%	Cash 1.9%	US equities 31.6%	China equities 29.7%	Commodities 38.5%	Commodities 22%	US equities 27.1%	Commodities 12.5%	US equities 12.3%
US equities 1.3%	Infrastructure 12.4%	EM equities 37.8%	DM gov.debt -0.4%	Infrastructure 27%	US equities 21.4%	REITs 32.5%	Cash 1.3%	Japan equities 20.8%	US equities 5.9%	Japan equities 6.8%
Emerging debt 1.2%	US equities 11.6%	Europe equities 26.2%	IG credit -3.5%	Europe equities 24.6%	EM equities 18.7%	US equities 27%	Infrastructure -0.2%	Europe equities 20.7%	Japan equities 5.8%	Infrastructure 4.9%
REITs 0.6%	EM equities 11.6%	Japan equities 24.4%	High yield -4.1%	REITs 24.5%	Japan equities 14.9%	Europe equities 17%	High yield -12.7%	High yield 14%	China equities 4.3%	Europe equities 4.6%
Cash 0.1%	Emerging debt 10.2%	US equities 21.9%	US equities -4.5%	China equities 23.7%	IG Credit 10.1%	Infrastructure 11.9%	Europe equities -14.5%	REITs 11.5%	Europe equities 3.6%	REITs 4%
Europe equities -2.3%	Commodities 9.7%	Infrastructure 20.1%	Emerging debt -4.6%	Japan equities 20.1%	DM gov.debt 9.5%	Japan equities 2%	IG credit -16.1%	Emerging debt 10.5%	EM equities 2.9%	EM equities 3.3%
High yield -2.7%	REITs 6.9%	High yield 10.4%	REITs -4.8%	EM equities 18.9%	High yield 7%	High yield 1%	Japan equities -16.3%	EM equities 10.3%	Cash 1.3%	High yield 3.3%
DM gov. debt -3.3%	IG credit 6%	Emerging debt 9.3%	Infrastructure -9.5%	Emerging debt 14.4%	Europe equities 5.9%	Cash 0%	Emerging debt -16.5%	IG credit 10.2%	High Yield 1.3%	Emerging debt 2.5%
IG credit -3.8%	Japan equities 2.7%	IG credit 9.3%	Commodities -10.7%	High yield 12.6%	Emerging debt 5.9%	Emerging debt -1.5%	DM gov. debt -17.5%	Infrastructure 6.8%	Infrastructure 0.8%	China equities 2.3%
China equities -7.6%	DM gov. debt 1.7%	REITs 8.6%	Japan equities -12.6%	IG credit 11.8%	Cash 0.7%	IG credit -2.1%	US equities -19.5%	Cash 5.1%	Emerging debt -0.6%	IG credit 1.4%
Infrastructure -11.5%	China equities 1.1%	DM gov. debt 7.3%	EM equities -14.2%	Commodities 11.8%	Infrastructure -5.8%	EM equities -2.2%	EM equities -19.7%	DM gov. debt 4.2%	IG credit -2.6%	Cash 1.4%
EM equities -14.6%	Cash 0.4%	Commodities 1.7%	Europe equities -14.3%	DM gov. debt 5.6%	REITs -8.1%	DM gov. debt -6.6%	China equities -21.8%	Commodities 0%	DM gov. debt -5.6%	Commodities 0.9%
Commodities -23.4%	Europe equities 0.2%	Cash 0.8%	China equities -18.7%	Cash 2.3%	Commodities -9.3%	China equities -21.6%	REITS -23.6%	China equities -11%	REITS -7%	DM gov. debt -1.3%

Key: Equities | Bonds | Private markets, commodities

Past performance is not a reliable indicator of current or future results. It is not possible to invest directly in an index.
Sources: BlackRock Investment Institute, with data from LSEG Datastream, 5 February 2024.
Notes: The table shows annual index total returns (income or dividends reinvested) in U.S. dollars, indices are unmanaged and therefore not subject to fees. 2024 shows year to 29 February 2024. Annualised column shows the annualised total return over the last 10-years from the same date. Indexes or prices used are: U.S. equities - MSCI USA Index, EM equities - MSCI Emerging Markets Index, Europe equities - MSCI Europe Index, Japan equities - MSCI Japan Index, China equities - MSCI China Index, DM gov. debt - Bloomberg Barclays Global Treasury Index, Emerging debt - JP Morgan Emerging Market Bond Index (EMBI) Global Composite, High yield - Bloomberg Barclays Global High Yield Index, IG credit - Barclays Global Corporate Credit Index, Commodities - Commodity Research Bureau (CRB) Index, Cash - Bloomberg Barclays U.S. Treasury Bill Index, REITs - S&P Global Real Estate Investment Trust (REIT) Index, Infrastructure - S&P Global Infrastructure Index

Considering your **options**

Other asset classes

You may want to consider these other asset classes as potentially valuable contributions to your portfolio.

Real estate investment trusts (REITs) are securities that represent portfolios of real estate. They invest in properties directly or through mortgages, and trade on major stock exchanges. REITs typically offer attractive dividend income, as well as a way to invest in real estate while maintaining liquidity. REITs tend to have low correlation to stocks.

Gold is a common hedge against inflation and can be appropriate in small measure in your portfolio. You can invest in gold by purchasing stocks of gold mining companies or shares in a gold or precious metals mutual fund. As with other commodities, you can also buy it outright or by using futures. No matter how you invest, since gold represents a single sector, it's considered highly volatile.

Commodities are raw materials such as grains, livestock and other agricultural products, as well as precious metals, oil and natural gas. They offer special diversification opportunities, since they are negatively correlated with traditional asset classes. In addition, commodities are often used to hedge against inflation because their prices rise with the Consumer Price Index.

Hedge funds are pooled investment partnerships that employ aggressive strategies, such as short selling, futures and other derivatives, as well as arbitrage to capture special opportunities for return. They may invest in a wide array of traditional and nontraditional asset classes, including commodities, and may employ higher leverage than other investment vehicles. As with managed futures funds, hedge funds require specific investor qualifications.

As with managed futures funds,

hedge funds

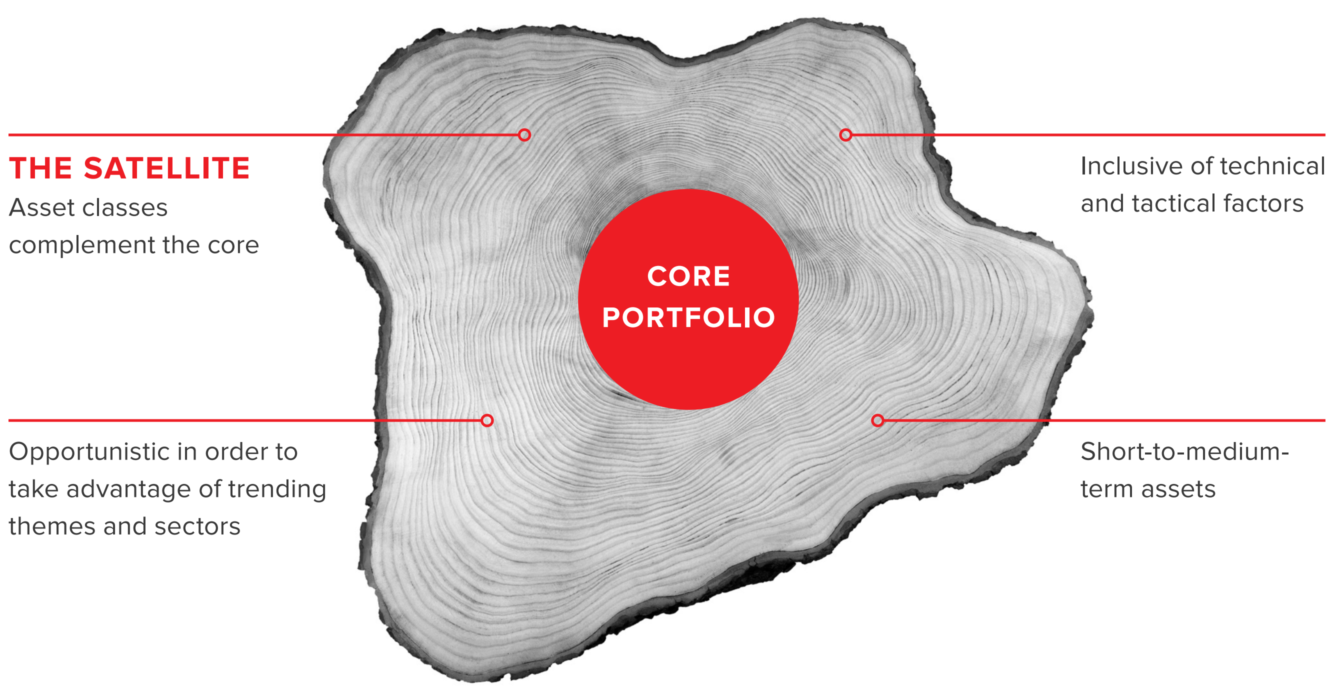
require specific investor qualifications.

Considering your **options**

"Core and Explore"

A popular and effective way to think about asset allocation is using the "Core and Explore" approach. This means making sure there is a strong "core" of basic investments in your portfolio, in proportions aligned with your risk tolerance and time horizon — asset classes such as large cap domestic stocks, government, municipal and investment-grade corporate bonds, and cash equivalents.

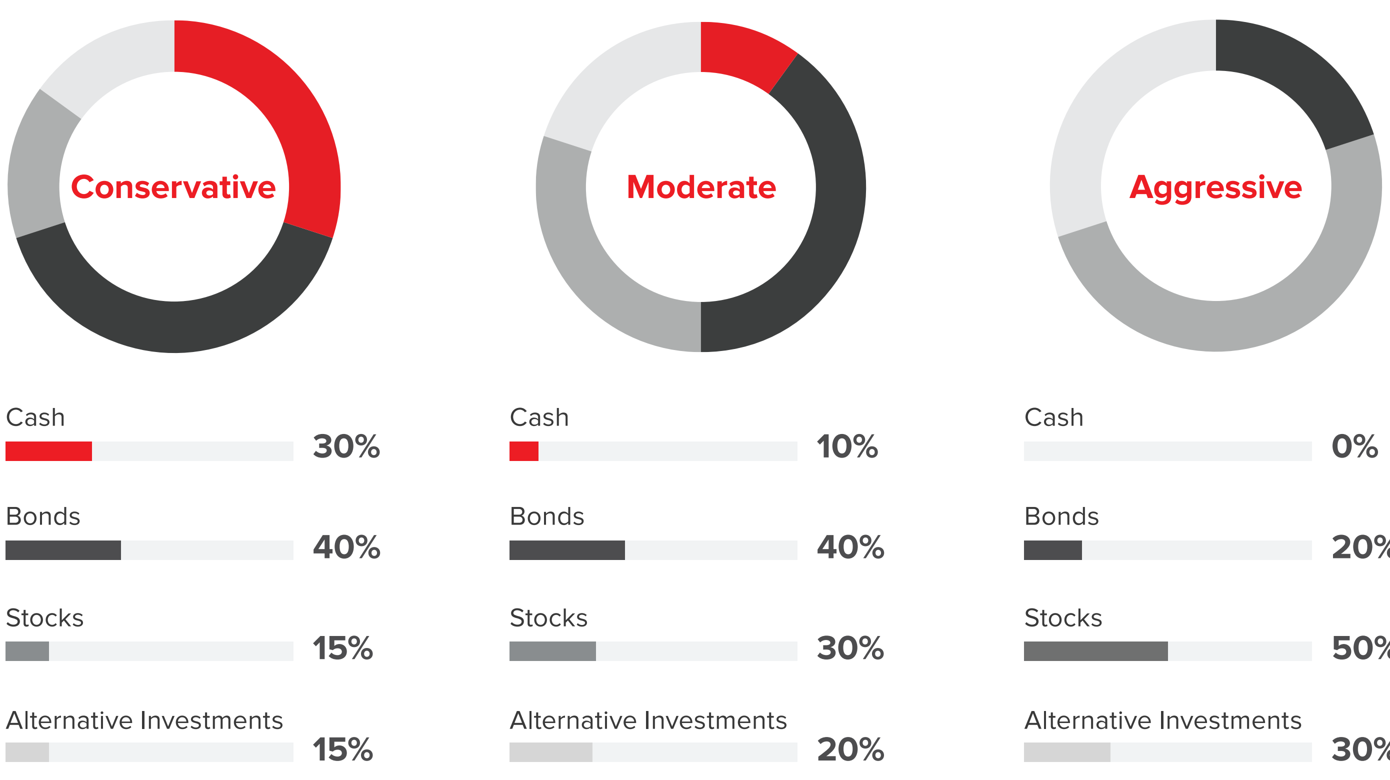
With those essential components in place, you can branch out into "satellite" categories for additional diversification. You may want to explore mid cap, small cap or international stocks, high-yield bonds, REITs or precious metals. Alternative investments would also appear in the outer "ring" of your strategy.



Considering your **options**

Private equity investors purchase equity stakes in companies that are not traded on public exchanges. Often structured as limited partnerships, private equity investments provide access to exclusive opportunities that may lead to considerable growth. It's important to note, however, that private equity is less liquid than publicly traded stocks, and private equity investments often lose value for some time before they turn a profit.

Asset allocation at work in your portfolio:



For illustration purposes only. Your situation may vary. Asset allocation does not ensure a profit or protect against a loss. A more aggressive portfolio may carry more risk.

Putting it all **together**

The advice and guidance of a knowledgeable financial professional is indispensable, not only in creating a successful asset allocation plan, but also in selecting and monitoring the specific investments within each asset class.

Choose an advisor with the expertise and resources to combine sophisticated quantitative models with qualitative investment insights and who, most importantly, will always put your best interests first.

Take your whole financial picture into account

To be effective, your asset allocation strategy must fit your overall financial circumstances. You should be candid with your financial advisor about your current investments and other aspects of your finances. It's common to assign your investable assets to different goals or develop a variety of asset allocation strategies — for example, investing one way toward your retirement and another way toward your child's college fund. Your financial advisor can help you the most when they understand your situation in full.

Choose the right managers

In addition to developing your asset allocation strategy, your advisor will evaluate investment managers on your behalf, selecting from the thousands available a handful who can meet your needs. Your advisor should have an established, disciplined selection process that is rigorously followed with all managers being considered for your portfolio. A comprehensive selection process will look for proven long-term track records, outstanding risk-adjusted performance, sound strategies and recognized expertise, as well as the financial strength and business integrity of the investment management firm.

Choose an advisor who will always put

your best interests first.

Putting it all **together**

Monitor results carefully

Investing is an ongoing process, and implementing an asset allocation plan is just the first step. You should monitor your portfolio regularly, making sure it corresponds to the intended asset allocation—and the investments that comprise it are generating risk-adjusted returns in line with your expectations.

Your portfolio's results should be measured against your own goals as well as appropriate standard benchmarks. Account statements should summarize the portfolio's positions, report gains and losses, and detail all transactions in your account to help you track your investments' progress.

Rebalance periodically

Since different asset classes perform differently at different times, your portfolio will naturally depart from its original allocations over time. To keep your portfolio on track, you will need to rebalance periodically. **Rebalancing** means taking money out of asset classes that have performed well and reinvesting it in areas that are not as strong. This process enables you to capture upward swings in the markets and manage risk in a systematic way, so you're not making reactive investment decisions or chasing performance. It may also increase your likelihood of buying low and selling high.

Remember that rebalancing may generate capital gains taxes or transaction costs, so be sure to discuss any potential impact with your advisor.

Rebalancing

You'll need to rebalance your portfolio regularly to keep it on track.

Putting it all **together**

Look for a long-term, consultative relationship

Working with a financial advisor you trust can provide peace of mind about your investments. Together you can evaluate your investment goals, time frames and attitudes toward risk before creating a customized plan that addresses your needs. Guidance from an unbiased, objective advisor is often critical to sticking with your plan during periods of market or personal turmoil.

Choose a financial advisor who takes the time to understand your specific circumstances and learn about your needs.

Our dedicated Wealth Services professionals have broad experience in private banking, investment strategy, asset management and estate planning.

We work together to customize seamless solutions that help you achieve your personal financial goals.

Guidance

from an unbiased, objective advisor is often critical to sticking with your plan during periods of market or personal turmoil.

Synovus can help

To learn more, talk with a Synovus financial professional by calling **888-SYNOVUS (796-6887)** or visiting your local branch.

Additional information is available at **synovus.com/wealth**.

Important Disclosure Information

This content is general in nature and does not constitute legal, tax, accounting, financial or investment advice. You are encouraged to consult with competent legal, tax, accounting, financial or investment professionals based on your specific circumstances.

Diversification does not ensure against loss.

Investment products and services provided by Synovus are offered through Synovus Securities, Inc. ("SSI"), Synovus Trust Company, N.A. ("STC") and Creative Financial Group, a division of SSI. Trust services for Synovus are provided by Synovus Trust Company, N.A. The registered broker-dealer offering brokerage products for Synovus is Synovus Securities, Inc., member FINRA/SIPC and an SEC Registered Investment Advisor. Synovus Securities, Inc. is a subsidiary of Synovus Financial Corp and an affiliate of Synovus Bank and Synovus Trust. Synovus Trust Company, N.A. is a subsidiary of Synovus Bank.

NOT FDIC INSURED NO BANK GUARANTEE MAY LOSE VALUE

© 2024 Synovus Financial Corp. SYN-MKT1668