FINANCIAL SYNERGIES®
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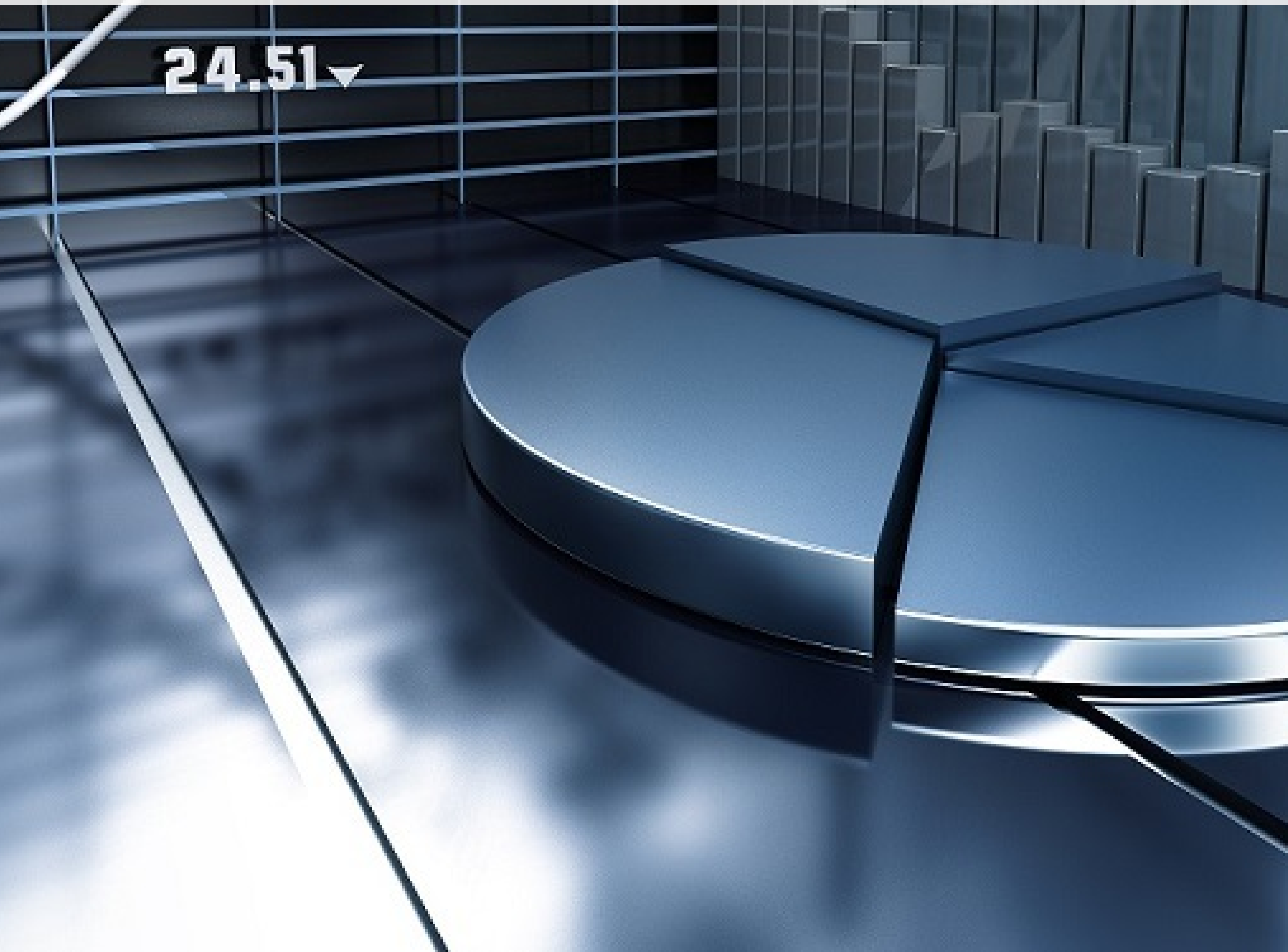
Dimensions of Expected Returns

In this guide, we'll explain the dimensions of expected returns and how we use them in constructing our investment portfolios.



The Six Dimensions of Expected Returns

Below are the six dimensions of expected returns with a brief description of each. We structure our portfolios around these dimensions, which are evidence-based, sensible, and cost-effective to pursue in a diversified allocation.

Market

Equity premium - stocks vs. bonds. Over time we expect stocks to outperform bonds.

Company Size

Small-cap premium - small vs. large companies. Small companies tend to outperform large companies over the long run.

Relative Price

Value premium - value vs. growth companies. Over time, value stocks (less expensive) stocks tend to outperform growth (more expensive) stocks.

Profitability

Profitability premium - high vs. low profitability companies. More profitable companies tend to outperform over the long-term.

Term

Term Premium - longer vs. shorter maturity bonds. Longer dated bonds tend to outperform shorter dated bonds over time.

Credit

Credit premium - lower vs. higher credit quality bonds. Lower quality bonds tend to outperform higher quality bonds in the long run.

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