Personalized Direct Investing
Understanding the Fundamentals

A Symmetry Whitepaper

SYMMETRY®
Invested In Your Goals

With recent advances in technology, and the advent of fractional share trading, individual investors are increasingly adopting a customized approach to investing that has traditionally only been available to institutional or ultra-high-net-worth investors, known as **Direct Indexing (or Personalized Investing).**

WHAT IS AN INDEX?

Indexes are simply groups or baskets of investments, like stocks or bonds, that represent and measure the performance of a specific market, sector, asset class, or investment strategy. Take the S&P 500 Index for example—it consists of stocks from 500 U.S. companies, which represent approximately 80% of the total assets of the U.S. stock market (not number of all companies, though there is an index for that too!). As the value of those stocks moves up or down on a daily basis, the index level moves up or down in proportion to the overall market-cap weight of each of those stocks to reflect those changes in underlying value. There are many mutual funds and exchange traded funds (ETFs) that allow investors to track an index, like the S&P 500, by holding most, if not all, of the securities in the index.

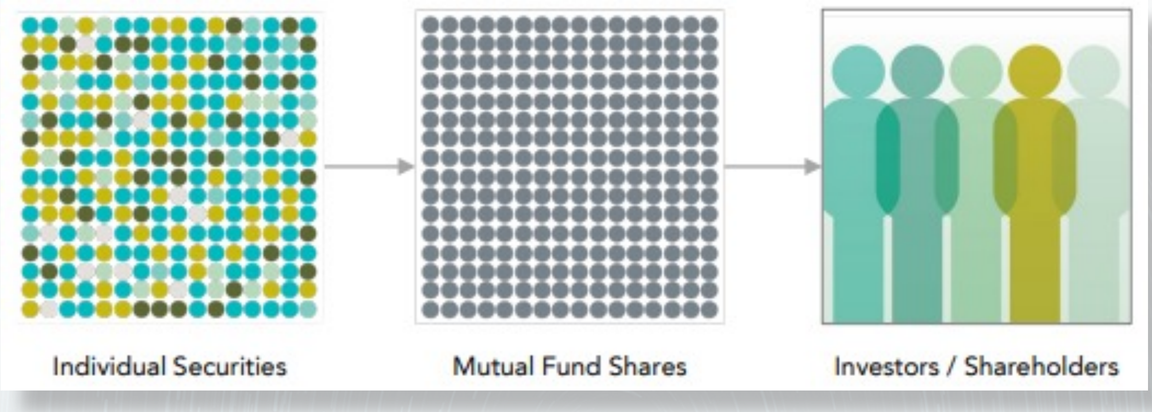
2021 represented. Source: Finviz

Here is a visual representation of each company's relative size in the index, categorized by sectors and industries. The size of box represents the companies market capitalization (number of shares outstanding multiplied by market price) relative to the overall market capitalization of all the companies in the index (i.e. its "weight"). Each box contains the company's ticker symbol, the percent that company stock has returned over time (in this case 1 year), and the color denotes positive (green) or negative (red) returns over that specific time period. A company's overall contribution to the performance of the index is simply its return multiplied by its weight (example: Apple (AAPL) at approximately $40 trillion in total market cap represents 7% of the total market cap of the S&P 500, and returned 18.9%, so contributed 7% x 18.9% = 1.32% to the overall return of the index for the period measured). Index funds have become a popular way to invest, they give you access to hundreds if not thousands of securities, they are often inexpensive relative to other similar investment vehicles and are simple to use building blocks for portfolios.

Investors cannot invest directly in an index.

WHAT DOES DIRECT INDEXING INVOLVE?

When you own shares of an index fund, you have exposure to the stocks or bonds in the in same proportion as the index, but you own them indirectly. This means that what you actually own are shares of mutual funds and/or ETFs which are "commingled vehicles". Because it can be expensive for individual investors to try and buy all 500 stocks that it would take to track the S&P 500, mutual funds and ETFs have been an excellent solution to allow investors to pool their money with other investors so together they can buy hundreds or even thousands of securities.



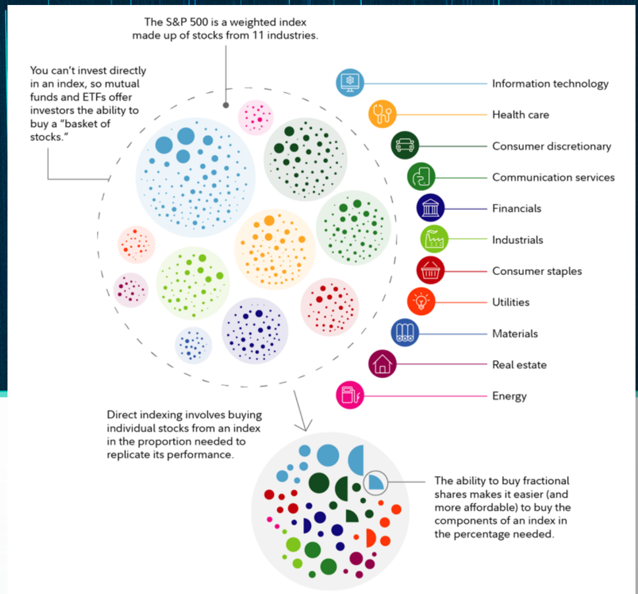
Source: Dimensional Fund Advisors

However, everyone who buys that mutual fund or ETF gets the same combination of securities. You cannot pick and choose to buy or sell specific underlying securities (say you really want to own Apple, but really don't want to own Exxon). You are stuck with the index as-is (or as the fund manager is mandated to track it by prospectus). In other words, one size fits all. It's a fine solution for most investors, but some may find that they want more flexibility. **Enter Direct Indexing/Personal Investing.**

Direct indexing means you are investing in the individual securities, which allows investors to directly own all or a customized assortment of the securities in an index. This gives the investor the same type of holdings that comprise the index, but also gives them the opportunity to build a customized version, and tailor it to the individual's specific goals, values, preferences, or circumstances. For instance, an investor can exclude certain securities (like Exxon) or increase their exposure to others (like Apple), focus on limiting tax exposure, or tilt the index towards certain risk factors.

In other words, direct indexing offers powerful flexibility for investors that are seeking a way to capturing market-like returns with an index that they can build and control.

WHAT ARE THE POTENTIAL BENEFITS?



Source: Fidelity Investments

With a universe of low-cost mutual funds and/or exchange traded funds (ETFs) that track indexes, one might reasonably ask: what is the benefit of Direct Indexing relative to the many other options available?

The true benefit of Direct Indexing for an individual investor comes in the form of enhanced customization, particularly when it comes to:

- **Improving outcomes in leveraging tax efficiencies**
- **Expressing personal preferences or values such as adopting ESG strategies**
- **Pursuing specific investment opportunities like Factor tilts**

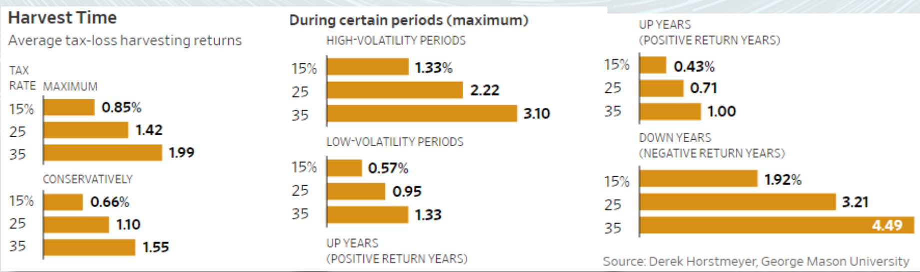
This is when Direct Indexing really becomes Personalized Investing—as you move from the underlying index to reflect your preferences, as well as specific over (or under) weighting strategies such as Factor tilts.

TAX MANAGEMENT

Direct Indexing's most quantifiable value is tax optimization and the potential tax savings. Research suggests that investors can realize higher returns by selling losing securities and using (or "harvesting") the losses to offset the capital-gains tax liability from winning securities.

Tax-loss harvesting is not a new concept. For years institutions and wealthy investors have engaged in selling some stocks or assets that have fallen in value and using the losses to help offset capital-gains tax liability, reducing the overall tax bill. Historically this has been an inefficient process that has involved finding and selling these positions manually.

Further, the benefit was quite sensitive to when the harvesting process occurred (example: doing it at the end of the year presumes that specific holdings were down in 4thquarter, and excludes temporary losses that might have occurred earlier in the year). Thanks to advances in technology, this process can now be executed efficiently on an ongoing basis, maximizing the overall benefit (as you can see from the chart below its estimated this can add anywhere from .40% to over 4% per year to overall returns depending on the market environment and individual's tax situation).



Information subject to change. investors should consult with their tax or legal advisor prior to engaging in any tax-loss-harvesting strategy.

WHAT ARE THE POTENTIAL BENEFITS?

TAX MANAGEMENT (CONTINUED)

Another tax-efficient feature of direct indexing involves individual securities holdings. For those investors who already have a potential tax-liability from a long-term holding with a low cost basis, or significant wealth in the form of equity compensation from a publicly traded company, direct indexing can be a way to facilitate a plan to slowly exit a highly appreciated or concentrated equity position.

For those investors who have significant assets in taxable accounts, or are tax-sensitive in general, direct indexing can be a solution worth exploring.

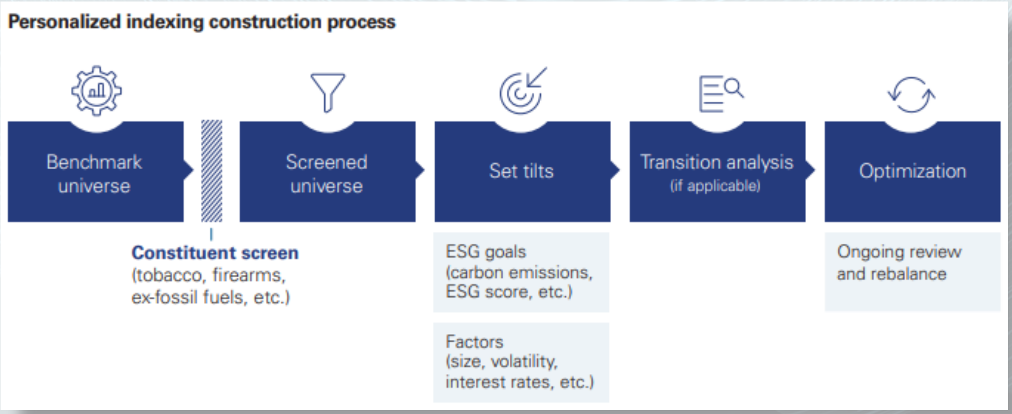
VALUES-BASED INVESTING

Direct indexing can be an excellent solution for those who wish to express specific **values**, such as incorporating environmental, social, and governance **(ESG)**, or socially responsible investing **(SRI).** For example, an investor can adopt a strategy that either screens out certain securities (fossil-fuel producers, big tobacco, gun manufacturers, etc.), or overweight companies that have adopted certain standards and practices (diversity focused hiring, beneficial corporate ethics, social change).

Direct indexing can also be utilized to help facilitate charitable giving. In lieu of identifying and harvesting losses from stocks that have declined in value, an investor can focus instead on identifying highly appreciated securities and harvest those to donate to a specific charity or donor-advised fund, where the investor might be able to direct funds to multiple charities.

STRATEGIES LIKE FACTOR-TILTS

For investors who have a desire to integrate certain investment strategies in their portfolios, direct indexing can also play a role. For instance, tilting an index to overweight specific characteristics of risk (aka "risk factors") such as value, momentum or minimum volatility to capture the long-term benefits identified by academic research, can be accomplished while tailoring those exposures to the investor's specific tax and values preferences.



Source: Vanguard

IS IT RIGHT FOR YOU?

In general, there is great appeal in being able to customize an investment solution to fit specific goals and preferences...but as in all things, there are trade-offs. The potential benefits should be weighed against the costs and complexities associated with Direct Indexing or Personalized Investing to determine if makes sense for you.

- Are you particularly tax sensitive, have significant capital gains, or large existing stock holdings, such that you could realize the full benefits from enhanced tax management?
- Do you have a desire for a level of personalization regarding values, or charitable desires, that cannot be met by investing with mutual funds or ETFs?
- Do you have investment objectives related to specific securities that you want to avoid or include (company stock, Factor tilts, etc.) that require a level of enhanced customization?
- Are you comfortable with performance that could be a bit different from that of the original underlying index?

If any of the above reflect your situation, then this could be an appropriate strategy for you, and it is worth further exploration.

"Scrappy," the Symmetry bull, is a symbol of our firm's belief in the long-term power of markets.

Important Disclosure

Symmetry Partners, LLC is an investment advisory firm registered with the Securities and Exchange Commission. The firm only transacts business in states where it is properly registered, or exempted or excluded from registration requirements. Registration with the SEC or any state securities authority does not imply a certain level of skill or training. Symmetry charges an investment management fee for its services. All Symmetry fees and other important information can be found in the Symmetry ADV Part 2A located on the website at www.symmetrypartners.com/disclosures-prospectuses. As with any investment strategy, there is the possibility of profitability as well as loss. Neither Symmetry nor its affiliates provide tax advice and nothing either stated or implied here should be inferred as providing such advice. Any chart that is presented in this brochure is for informational purposes only and should not be considered an all-inclusive formula for security selection.

Diversification seeks to reduce volatility by spreading your investment dollars into various asset classes to add balance to your portfolio. Using this methodology, however, does not guarantee a profit or protection from loss in a declining market.

Symmetry Partners' investment approach seeks enhanced returns by overweighting assets that exhibit characteristics that tend to be in accordance with one or more "factors" identified in academic research as historically associated with higher returns. Please be advised that adding these factors may not ensure increased return over a market-weighted investment and may lead to underperformance relative to the benchmark over the investor's time horizon. The factors Symmetry seeks to capture may change over time at its discretion. Currently, the major equity factors used by Symmetry and some associated research are: the market risk premium ("Capital Asset Prices: A Theory of Market Equilibrium under Conditions of Risk," 1964), value ("Common risk factors in the returns on stocks and bonds," 1993, small "The Relationship Between Return and Market Value of Common Stocks," 1981), profitability ("The Other Side of Value: The Gross Profitability Premium," 2013, quality ("Quality Minus Junk," 2013), momentum ("Returns to Buying Winners and Selling Losers: Implications for Stock Market Efficiency," 1993, and minimum volatility ("The Cross-Section of Volatility and Expected Returns," 2006. On the bond side, Symmetry primarily seeks to capture maturity and credit risk premiums ("Expected Returns: An Investor's Guide to Harvesting Market Rewards," 2011). All data is from sources believed to be reliable but cannot be guaranteed or warranted.

Risk Disclosure

Higher potential return generally involves greater risk, short-term volatility is not uncommon when investing in various types of funds including but not limited to: sector, emerging markets, small and mid-cap funds. International investing involves special risks such as currency fluctuation, lower liquidity, political and economic uncertainties, and differences in accounting standards, which risks are generally intensified for investments in emerging markets due to the relatively smaller size and lesser liquidity of these markets, high inflation rates and adverse political developments. Risks for investing in international equity include foreign currency risk, as well as, fluctuation due to economic or political actions of foreign governments and/or less regulated or liquid markets. Risks for smaller companies include business risks, significant stock price fluctuation and illiquidity. Investing in real estate entails certain risks, including changes in: the economy, supply and demand, laws, tenant turnover, interest rates (including periods of high interest rates), availability of mortgage funds, operation expenses and cost of insurance.

Investment Companies and Exchange-Traded Funds Risk. When the Fund invests in other investment companies, including ETFs, it will bear additional expenses based on its pro rata share of the other investment company's or ETF's operating expenses, including the management fees of the Underlying Fund in addition to those paid by the Fund. The risk of owning an Underlying Fund generally reflects the risks of owning the underlying investments the Underlying Fund holds. The Fund also will incur brokerage costs when it purchases and sells ETFs.

Exchange-traded funds tend to distribute fewer capital gains than traditional open-end mutual funds due to the in-kind redemption process, which allows the ETF to swap out low cost-basis securities. Be advised that this process defers taxes, but does not eliminate them. Investors will owe capital gains taxes on gains made in their own ETF shares. ETFs do not sell individual shares directly to investors and only issue their shares in large blocks. Exchange traded funds are subject to risks similar to those of stocks. Investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. ETF shares are bought and sold at market price (not NAV) and are not individually redeemed from the fund.

ESG (Environmental, Social and Governance) Investing Risk: ESG Investments may not be perfectly correlated to the broader market indexes they seek to replicate. Stocks screened by the index sponsor for ESG criteria may underperform the stock market as a whole or particular stocks selected for the Index will, in the aggregate, trail returns of other funds investment strategies screened for ESG criteria. The individual companies deemed eligible by the index provider may not reflect the beliefs and values of any particular investor and may not exhibit positive or favorable ESG characteristics. The components of the Index are likely to change over time.

Axiom Program Risks: The Symmetry Axiom program provides clients with individual security portfolio solutions designed around individual client preferences. The Axiom separately managed accounts (Axiom SMAs) can be index- or factor-based. The index-based solutions are designed to give clients exposures similar to popular market indices, with far fewer individual security positions. The factor-based solutions are designed to emphasize those factors [need to define/describe factors or refer to somewhere in the ADV where they are already described] the Research/Portfolio Management team believes will optimize risk-adjusted return. Both the index-based and factor-based portfolios hold individual securities.

Tax-loss harvesting involves certain risks, including, among others, **the risk that the new investment could have higher costs than the original investment and could introduce portfolio tracking error into your accounts.** There may also be unintended tax implications. Prospective investors should consult with their tax or legal advisor prior to engaging in any tax-loss-harvesting strategy.

DIFFERENT TYPES OF INVESTMENTS AND/OR INVESTMENT STRATEGIES INVOLVE VARYING LEVELS OF RISK, AND THERE CAN BE NO ASSURANCE THAT ANY SPECIFIC INVESTMENT OR INVESTMENT STRATEGY WILL BE EITHER SUITABLE OR PROFITABLE FOR YOUR PORTFOLIO.

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