



CALDWELL TRUST COMPANY

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INVESTMENT LETTER

The Importance of Asset Allocation in Investment Portfolios

Asset allocation is widely considered the most critical decision in portfolio management, often accounting for over 90% of a portfolio's long-term performance variability. It refers to the strategic distribution of investments across different asset classes to balance risk and return according to an investor's specific goals, time horizon, and risk tolerance.

At Caldwell Trust Company, we obtain a deep understanding of clients' unique needs and circumstances before implementing an investment strategy. This understanding drives our actions and guides our asset management decisions. In this quarter's newsletter, we will detail the importance of asset allocation in investment portfolios and discuss the primary considerations when implementing allocation strategies.

Here are the key reasons why asset allocation is important:

DIVERSIFICATION, VOLATILITY REDUCTION, AND RISK MANAGEMENT

Different classes of investment assets e.g., stocks, bonds, real estate, and cash, react differently to market conditions. Some asset classes (like bonds) are more stable than others (like stocks). A well-diversified portfolio spreads investments across various assets, reducing the impact of a downturn in any one area and improving overall stability. When one asset class underperforms, others may outperform, helping to reduce portfolio volatility and protect against significant losses during market downturns.

MARKET CYCLE AND INFLATION PROTECTION

Economic cycles affect asset classes differently. Bonds may perform well during recessions while equities often excel during expansions. A well-diversified allocation helps navigate these cycles by maintaining exposure to assets that can perform in various economic environments. Further, certain asset classes, such as equities and real estate, can provide protection against inflation, ensuring that investments maintain their purchasing power over time.

OPTIMIZED RETURNS

All investments involve some degree of risk. The reward for taking on risk is the potential for a greater investment return. Distinct asset classes have varying risk-return profiles. A carefully designed allocation helps investors capture returns from multiple sources while maintaining an acceptable level of risk. This approach focuses on achieving the highest possible return for a given risk level.

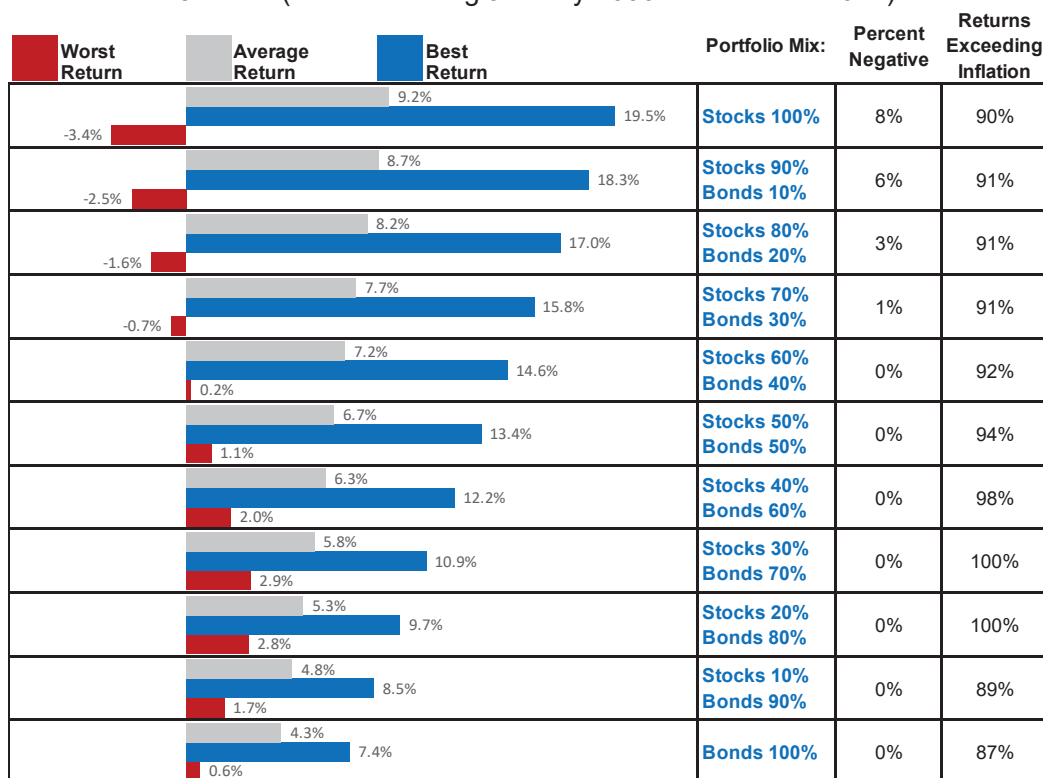
A well-structured asset allocation strategy is not immune to short-term market events and influences, so adopting a long time horizon is critical to any discussion of investment returns.

This chart illustrates the advantage of adhering to an appropriate asset allocation over a ten year period. During any rolling ten year span over the last twenty-five years, the traditional 60/40 portfolio never had negative annualized returns.

ASSET ALLOCATION – RISK & REWARD

Ten Year Returns

25 Years (Periods Ending January 2000 – December 2024)



The Consumer Price Index for December 2024 is preliminary.

Data: Rolling 10 year annualized returns using monthly data (300 Observations)

Stocks: Standard & Poor's 500 Stock Index • Bonds: Intermediate Treasury Bonds • Inflation: Consumer Price Index

Sources: Standard & Poor's Corporation; Merrill Lynch, Pierce, Fenner & Smith Inc.; Bureau of Labor Statistics

Source: Crandall, Pierce & Company

PERSONALIZATION AND GOAL ALIGNMENT

Asset allocation aligns with an investor's financial goals, whether it is growth, income, or capital preservation and has a major impact on when and whether these goals will be met. Asset allocation is personal and allows for adjusting the portfolio's risk profile based on specific objectives and time horizons.

ADAPTABILITY

Asset allocation strategies should be flexible and adjusted over time to reflect changing investment objectives, risk tolerance, and time horizons, ensuring the portfolio remains aligned with an investor's evolving needs.

In essence, asset allocation is fundamental to creating a resilient investment portfolio that can weather market fluctuations while pursuing long-term financial objectives. It provides a framework for balancing risk and reward, making it one of the most significant decisions investors can make in their financial planning process.

With this framework in mind, let us turn to the practical aspect of deciding on an asset allocation strategy.

IMPLEMENTATION CONSIDERATIONS: RISK TOLERANCE AND REBALANCING

The optimal asset allocation depends on several factors including investment timeframe, income requirements, market conditions, and risk capacity. The latter may be the hardest to define; a formal approach can be helpful to arrive at your personal tolerance level.

Here are basic steps to help you evaluate your risk tolerance:

- Define what you want to achieve (e.g., retirement, buying a home, education funding).
- Consider how long you plan to invest. Longer time horizons typically allow for more risk.
- Analyze your current income, expenses, and savings. A stable financial situation may allow for greater risk.
- Quantify your liquidity needs. Do you have enough liquidity to meet short-term needs while still investing for long-term growth?
- Understand your net worth (total assets and liabilities) to gauge your financial cushion.
- Reflect on how you feel during market downturns. Are you comfortable seeing the value of your investments drop?
- Consider whether you can stick to your investment strategy without panicking during market volatility.
- Assess your familiarity with different asset classes and investment strategies. More experienced investors may feel comfortable taking on more risk.
- Review your existing portfolio to see how much risk you are currently taking. This can provide insight into whether your risk tolerance aligns with your current asset allocation.

By carefully considering these factors with you, we develop a clear understanding of your risk tolerance, which allows us to make informed decisions about asset allocation in your investment portfolio. Understandably, your financial situation and goals may change over time, so regularly reassessing and communicating changes to your risk tolerance is important.

Market movements naturally alter a portfolio's composition over time. Regular portfolio reviews ensure that your asset allocation strategy remains aligned with your long-term objectives. Caldwell Trust Company has a disciplined approach to reviewing client portfolios and rebalancing as necessary to maintain the target allocation. This discipline ensures that an asset category (or individual component of an asset class) does not become overweight in the chosen asset allocation scheme.

It can be difficult to shift money away from an asset category when it is doing well in favor of an asset category that is doing poorly. However, rebalancing by cutting back on current "winners" and adding more of the current so-called "losers" forces you to buy low and sell high – the simplest recipe for investing success.



CONCLUSION

In conclusion, asset allocation represents the foundation upon which successful investment portfolios are built, creating a framework that helps investors maintain discipline through market fluctuations while working systematically toward their financial goals.



CALDWELL CARES

Tidewell Signature Luncheon: A Day of Inspiration and Gratitude with BJ Miller



BJ Miller with Kelly and Melissa Caldwell

kindness, and unwavering support she received from Tidewell Hospice during the loss of her father. In her moving address, Melissa emphasized the critical role that hospice services play in providing not just medical care, but also emotional and spiritual support for families in times of need. Her words set the tone for a day focused on empathy, healing, and the importance of community.

Following Melissa's touching tribute, the stage was set for BJ Miller's keynote speech, in which he shared his own experiences as a hospice and palliative care physician. BJ's insights on navigating the end-of-life journey with dignity and grace resonated deeply with the audience. His message of embracing the difficult moments in life with compassion and understanding left an indelible mark on everyone present.

The event served as a reminder that, together, we can make a difference in the lives of those facing life-limiting illnesses and their families.

The Tidewell Signature Luncheon was not only a celebration of the incredible work done by Tidewell Hospice, but also a tribute to the kindness and generosity of the community that supports it. With attendees like Melissa Caldwell, whose heartfelt words left a lasting impression, and speakers like BJ Miller, who inspired with his wisdom, the event was a true reflection of the spirit of empathy and care that defines Tidewell Hospice.

The success of this year's luncheon will undoubtedly help Tidewell continue its mission to provide compassionate care to those in need. As we move forward, we are reminded of the importance of community and the profound impact of shared support and understanding.

We look forward to seeing you at next year's event!

On a beautiful afternoon in March, the Tidewell Signature Luncheon brought together a community of supporters, advocates, and leaders to celebrate the extraordinary work of Tidewell Hospice. This year's event was particularly special, as it featured renowned keynote speaker BJ Miller, a doctor, author, and advocate for compassionate end-of-life care.

The luncheon began with heartfelt remarks from Melissa Caldwell, director of Caldwell Trust Company, who shared a deeply personal story. She spoke of the exceptional care,



Melissa Caldwell, Director, Caldwell Trust Company, shared personal story on receipt of Tidewell Empath services

PROFILE

Caldwell Trust Company Welcomes David Osgood, AWMA® to Lead Vero Beach Market Expansion



David Osgood, AWMA®

We are pleased to announce that **David Osgood, AWMA®** has joined Caldwell Trust Company as the Executive Vice President and Director of Vero Beach as we expand our market. David's extensive experience in wealth management, banking, and client services will play a key role in enhancing our ability to serve the growing needs of clients in this region.

David comes to Caldwell Trust Company with a distinguished career in investment management, credit structuring, legacy planning, and wealth transfer solutions. His expertise spans both individual and institutional clients, including high-net-worth families and charitable organizations. Known for his ability to develop and implement tailored financial strategies, David has earned a reputation as a trusted advisor and leader within the wealth management industry.

Prior to joining our team, David held senior leadership positions, including President of a regional brokerage company and executive roles at a regional bank trust company. He also served as Managing Partner at a national asset management firm. Throughout his career, David has been committed to mentorship and developing advisory teams focused on delivering personalized solutions to clients.

David is an Accredited Wealth Management Advisor® (AWMA®), a designation that reflects his deep knowledge and dedication to providing top-tier financial advice. This certification, awarded by The College for Financial Planning Institutes Corp., is granted to professionals who meet high standards in the wealth management field.

In his new role, David will be dedicated to strengthening relationships with clients, ensuring they receive exceptional service, and continuing to uphold the high standards for which Caldwell Trust Company is known for. His leadership will be instrumental in advancing our mission to provide expert financial guidance and wealth management solutions that help clients protect and grow their assets for future generations, the way it's meant to be.

We are excited to welcome David to our team and are confident that his leadership will further elevate the service and expertise offerings in the Vero Beach market. We look forward to the opportunities ahead and to continuing to serve you with excellence.

Thank you for your continued trust and support.



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