TWO STRATEGIES FOR REBALANCING YOUR PORTFOLIO

HOW TO BRING YOUR PORTFOLIO BACK IN LINE WITH YOUR GOALS

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Your investment portfolio is more than the sum of your account balances. It represents your pathway toward important financial goals, whether a comfortable retirement or a college education for your kids.
But over time, the inevitable ups and downs of the financial markets can change the profile of your investment plan, leaving you with more risk than you'd like or less growth potential than you need. Fortunately, a strategy called rebalancing can help keep your investment plan in line with your goals.

What is rebalancing?

The centerpiece of your investment plan is your asset allocation—the mix of stocks, bonds and cash in your portfolio. The allocation you choose depends on your situation.

If you're decades away from retirement, you may want to allocate more of your portfolio to higher-risk investments such as stocks, which offer more growth potential than conservative investments such as bonds or cash.

By contrast, if you just have a few years before retirement, you may want more exposure to those less-risky investments.

But while your *target* allocation stays constant, your actual asset allocation does not. The market's ups and downs may cause that allocation to drift as your investments change in value. For example, a sustained stock market rally can boost the value of your stock holdings, tilting the balance of your asset allocation toward stocks and exposing you to more risk than you intended.

Regular rebalancing strategies can help bring your asset allocation back in line with your target allocation—regardless of the market's ups and downs. What's more, setting regular portfolio reviews means you're less likely to make spur-of-the-moment decisions that can negatively impact your financial plan.

How does it work?

There are two main methods for when to rebalance your portfolio: periodic rebalancing and "tolerance band" rebalancing. Each can be an effective tool to manage your investments and limit your exposure to undesirable risks. Whichever method you choose, the important thing about rebalancing your portfolio is not necessarily how you do it, but your commitment to sticking with it.

Periodic rebalancing. The periodic rebalancing approach is relatively simple, requiring little monitoring and oversight.

To use this method, mark a recurring date on your calendar when you'll analyze your investment holdings and adjust allocations if necessary. You may choose to do this annually, every six months or every quarter—it's up to you.

To make it easy on yourself, consider pegging the date you choose to another easy-to-remember date, like tax day or the end of a quarter. One note: Reviewing and rebalancing your portfolio too often can potentially be counterproductive.

Tolerance band rebalancing. Tolerance band rebalancing is a bit more intensive than periodic rebalancing. It requires a formulaic approach that demands frequent monitoring. Instead of choosing a set time to rebalance, you do so when your asset allocation changes by a specific percentage, or threshold of change.

For example, say your threshold of change is 5%, and your target allocation of stocks is 70%. You would rebalance your stock allocation when it shifts either up to 75% percent or down to 65%. This method is useful in helping you make sound investment decisions in a rapidly changing market. However it can also be more expensive than period rebalancing. During times of volatility you may end up buying and selling investments more frequently and potentially paying more in trading costs.

If your review identifies a need to rebalance, here are a couple of ways to bring your portfolio back in line: The first option is to sell investments to assets with a higher allocation and use the proceeds to invest in assets with lower allocations. Or you can simply direct new investments to those assets with low allocations to bring them back in line with your target.

Make adjustments as your goals change

Life events, like the birth of a child, marriage, divorce or a death in the family can change your investment goals and time horizon. When these events happen you may want to rebalance your portfolio, even if you're not technically scheduled to do so. Make your adjustments and continue to use the method of monitoring that works best for you.

Regularly rebalancing your portfolio helps keep your eye on the big picture, keeping your goals and risk tolerance at the forefront of your investment strategy.

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ABOUT US

At the Lamchick Financial Group of Raymond James, we’re experienced financial advisors who will treat you like an extension of our own family, getting to know you on a personal level in order to create a comprehensive financial plan that fits your life. Our family business and South Florida roots give us a better understanding into the needs of growing families here in this thriving, affluent area we call home.

We help you pursue your financial goals with experienced guidance. Along with challenges, the market also brings new opportunities – you just have to know where to look and when to take action. Over the years, we’ve helped clients navigate through challenging times with purpose and confidence toward their financial goals, and I’m here to help you, too.

We can offer you an array of personalized financial services, support and guidance that can help make a positive difference in the pursuit of your financial goals.