Money Matters: Take time to rebalance portfolio

By Rick Gross

The past nine years have been extraordinary for the stock market. From March 2009 to the end of 2017, the Standard & Poor's 500 Index, a benchmark of market performance, rose close to 300 percent. In 2017 alone, the index gained more than 21 percent.

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If you are an investor who has benefited from the extended bull market in stocks, you might think there's no reason to rebalance your portfolio. However, certain investments or sectors you own may have prospered in recent years, possibly affecting the level of risk you have in the market. With market performance where it is, it may make sense to review your portfolio and determine if changes are appropriate.

The importance of rebalancing

Rebalancing is a process of shifting assets in your portfolio back to your original allocation to more suitably reflect your investment objectives and risk profile. Because the markets move in unpredictable cycles, it's important to remember that the types of returns many investors saw in 2017 won't necessarily be repeated in the next few years. While stocks have historically moved higher over time, there are periods when they either perform below average or give back some of the gains they previously achieved. These market swings mean an investor may have to make adjustments to their portfolio mix over time. Keep in mind that rebalancing does not guarantee a profit or protect against a loss.

As a simplified hypothetical example, assume an investor’s portfolio was established with a mix of 60 percent stocks and 40 percent bonds. This mix would be determined based on the investor’s risk tolerance and goals. After the market’s recent winning streak, stocks may now represent 70 percent of the portfolio. This could be considered an “overweight” position compared to the investor’s designated allocation. If stocks experience a correction, the “overweight” position in equities could work against the investor. It may make sense to reduce the stock position back to its original allocation of 60 percent, and move 10 percent of the portfolio back into bonds. In this way, the portfolio would more accurately represents the investor’s risk profile.

When to shift assets

There are many market or personal events that may cause investors to rebalance their portfolios. While the following rules of thumb may give you an idea of when to consider reallocating your investments, remember that the right time and frequency is different for each investor. Consider reallocating:

· **When one asset class is a certain percentage higher or lower than its original representation in your portfolio.** Your investments will swing up and down day-to-day and week-to-week, so work with your financial advisor to establish a benchmark for when volatility may trigger a change in your investment makeup.

· **At a set time frame, such as quarterly, biannually or annually.** Reviewing on a regular schedule may help you avoid making an emotional decision during times of market volatility.

· **When you recognize a broad, persistent trend in the markets.** For example, upward trends in emerging markets' performance or rising interest rates in the U.S. could affect your portfolio or present an investing opportunity based on your goals.

· **Because of changes in your own life.** Major life events, such as marriage, divorce, the birth of a child or grandchild, or deciding on a retirement date, may require you to adjust your investments so they align with your new priorities. For example, if you decided to retire early you may want to reduce your exposure to risk in case the markets dip before your retirement date. This could mean shifting a portion of your portfolio into more conservative investments.

Be aware of tax ramifications

Even if you hold investments in a variety of accounts, consider assessing all of your holdings as one portfolio to determine if you need to rebalance your assets. Be aware that if you sell positions in taxable accounts, you may incur taxable gains. If you make changes within a tax-advantaged account (such as IRAs or a workplace retirement plan), you may be able to avoid any current tax implications from the rebalancing process.

Even if your portfolio is making progress toward your goals, it's important not to keep your investments on autopilot. Your asset allocation can have a major impact on your ability to reach your future goals, so it's worth ensuring your mix remains on track. Consult with your financial advisor and tax advisor before you make any decisions about your investment strategy.

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