



Rebalancing Your Assets Puts You in Charge

By: ASH RAJAN

Volatile markets can take your portfolio on a roller-coaster ride. Regular rebalancing can help ease the bumps and reduce the risks.

There are moves you can make as an investor that will help you to avoid a number of pitfalls and take advantage of opportunities. One of the most important is regular rebalancing—adjusting your mix of stocks, bonds, cash and, for qualified investors, alternative investments to your original targets so that your investments reflect the strategy you have decided best suits your goals, time horizon and risk tolerance.

The market volatility of the past couple of years shows pretty clearly why rebalancing your portfolio is a sensible idea. Between October 2007 and March 2009, the value of stocks (as measured by the S&P 500) declined 57%, and many investors cashed out. At the same time, bonds posted gains, and many people increased their fixed-income holdings. As a result, the percentage of stocks in most portfolios shrank markedly over this period, while bond and cash allocations grew in the majority of cases. When the markets reversed course in the ensuing months, investors who hadn't rebalanced

their holdings missed the chance to reap the gains.

When the markets alter the shape of your portfolio in this way, there's less potential for the long-term growth that markets have historically provided and greater exposure to risk and lost opportunities. Reviewing your portfolio regularly ensures that *you*—not the markets—manage your assets.

Sell Overperformers. Seek Opportunities.

Start your portfolio review by examining which assets have over performed and which have under performed during a set period of time. Leverage your Financial Advisor's firm's research insights as you consider shifting funds out of asset classes that exceed your targets—and are thereby growing into a larger percentage of your holdings—and moving them into underrepresented asset classes. With the help of your Financial Advisor, you can define asset-allocation parameters that are appropriate to your goals, your risk profile and your liquidity needs, among other considerations.

Rebalancing can help achieve the twin goals of reducing the risk of overexposure and increasing diversification. The most straightforward strategy is to sell some of your best performers and use the proceeds to purchase undervalued/underrepresented assets—either by expanding positions in securities you already hold or by choosing different investments in the same

asset class or sector.

Rebalancing can also be an opportunity to take advantage of investment options. As you consider which positions to sell and purchase, look at what's happening in the marketplace. Talk to your Financial Advisor about different sectors, asset classes, geographical regions and market trends that are consistent with your strategy and risk tolerance.

How Often Is "Regularly"?

Active rebalancing is especially important following a prolonged period of market volatility. However, many financial professionals recommend revisiting your portfolio on a regular schedule regardless of market conditions. An annual review is usually adequate. It represents a happy medium between too often and not often enough. It also nicely matches other market assessments, such as year-to-date performance, and any life changes - such as marriage, divorce, education, retirement or inheritance - that may have occurred during the past year to alter your attitude toward risk.

While asset allocation, diversification, and rebalancing do not protect you fully against losses in a declining market, establishing a rule of regular recalibration helps you respond to market movements with a well thought-out strategy. This process shouldn't be viewed as merely an action but as a mindset and as a partnership between you and your Financial Advisor. It's a



Left to right: Mary D'Orazio, Mary Gilbert, Jeanne Eisele and Leanne Hehre.

conscious step that will help you approach your portfolio in a disciplined way. And that's valuable in any market.

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