

## Rebalancing Your Portfolio

A disciplined investment process begins with determining the asset mix that is right for you. Life, markets and your portfolio all change with time, so decisions made yesterday may not hold true with new information tomorrow. This is the reason that your investment strategy is not just about the markets. When you buy a house, have a child or approach retirement your investment goals will change. As your goals change, so might your asset allocation. For example, the asset allocation of a very aggressive investor would not be suitable for someone who is retiring in the coming years. Just as major life events change us, we can also look at major market events as changing the way we look at our portfolio. For some investors this may be an opportunity for reflection. You may ask yourself if your “normal” asset allocation is still valid once you have considered any changes in your life. If that answer is yes, then when markets change as they do, it may also be time to consider rebalancing your portfolio back to its original mix.

Because market movement fluctuates between asset classes, it is the natural course for a portfolio to change its look. Asset classes do not change at the same rate. Over time, stocks may grow faster than bonds making the growth in your portfolio uneven. For example a portfolio of 60% equities and 40% bonds could drift to 70%/30%, or alternatively the other way to 50%/50%. Regardless of the direction of the change in your portfolio, it is necessary to remember the importance of the reasoning behind your original asset allocation. Although it may seem counter intuitive to sell in an asset class that is doing well or buy into one that is not that is precisely what is required if the fundamental principle of “buy low – sell high” is to be followed. By rebalancing your portfolio, you are staying the course and increasing the potential to improve returns without increasing risk.

Disciplined rebalancing can provide comfort by taking the emotion out of your investment decisions. It does not seem natural to sell a portion of your investments that have done well and buy more of those that have been more sluggish. This discipline allows a reassuring way to buy when it is difficult and sell when it seems counterintuitive. When markets are down human nature would have us get out rather than buy low, but a disciplined rebalancing process can prevail in the long run.

Although at times the changes in the market may not be large enough for an investor to feel that there is any need to rebalance, the benefit to doing so can be significant over the long run with compounding returns.

As a client in the Pinnacle Program, once your asset mix has been determined, you have the option of choosing one of the Optimized Portfolios that have been professionally designed with the assistance of Northern Trust Global Advisors, or a custom portfolio that has been personally designed by your advisor. If it is not already, your Optimized or custom portfolio can be automatically rebalanced to your target allocations on a quarterly basis.

If you would like to learn more about the rebalancing options that are available to you, please contact us.

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### **The Pinnacle Program™**

