A Different Take on Rebalancing

Before you rebalance your investment portfolio, here is a list of questions and considerations to address first.

Do you have more than $250,000 in investable assets?

- If your answer is no, focus on saving and accumulation for now. Your savings rate is likely to have a much larger impact on your financial situation than your rebalancing strategy.
- If your answer is yes, the answer of whether or not you should rebalance your portfolio isn't black or white. There are a few other things to consider first.

How many years are between you and retirement?

- The further you are from retirement, the less you need to focus on rebalancing. This is because, generally speaking, saving as much as you can as early as you can is priority #1, and, if rebalancing is a tool to calibrate risk, the further out you are from retirement, the more wiggle room you have in your risk capacity.
- However, if you are in your 20s and already have $250,000 saved up, then thinking through these following considerations can't hurt!

Which of the following statements MOST CLOSELY aligns with your investment goals?

☐ *You want to be rich.* ☐ *You don't want to be poor.*

There is no right or wrong answer, there is just your personal answer to this goals-based question.

- If you answered that you want to be rich, focus your rebalance on your growth assets like stocks. Simply speaking, if you want a portfolio that is poised for more aggressive growth, make sure your asset allocation maintains a tilt towards growth assets like stocks. Your rebalances will likely be concentrated on that side of the equation (i.e. International vs. Domestic, Large vs. Small, etc.)

Remember that assuming too much risk undermines your goal of being rich because of how vulnerable you become to underperforming stocks or a market downturn.

- If you answered that you don't want to be poor, focus your rebalance on assets that help you sustain a safe withdrawal rate in retirement like bonds. Make sure that the ratio between higher risk vs. risk-adverse assets doesn't get too off balance. It shouldn't look like a growth portfolio that's more heavily invested in stocks.

Also consider non-portfolio means to mitigate risk like having emergency cash reserves, paying down any outstanding debt, and a diversified tax strategy.

Remember that assuming no or not enough risk can actually create the risk of not having enough wealth to meet your needs in retirement. Therefore, investing and rebalancing within certain parameters (with holdings in higher risk assets) can work to help you avoid becoming poor.

As with most investment and financial advice, there is rarely a "one-size-fits-all" approach. When it comes to rebalancing an investment portfolio, it's a function that is most effective when it considers all aspects of your unique financial situation, needs, goals, and values. So before you decide to rebalance, make sure you understand the purpose it serves in your financial life.

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