

Staying on Track by Rebalancing

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It's hard to believe but we've already more than halfway through 2022. As we prepare for the rest of the year, you may want to review your portfolio to ensure that it's still on track to meeting your investment goals.

Think of it as a regular tune-up just like your car to ensure that everything is working as it should so that your portfolio still meets your requirements.

In investment lingo - this is also called rebalancing. Here's what you need to know about portfolio rebalancing and why it's important.

What is Rebalancing?

Over the year, the weightage of each asset-class in your portfolio may have changed from your original target allocation. This is because of market movements that could impact the value of the underlying funds.

For example, if the equity funds in your portfolio outperformed last year, then you may find that the % percentage holding of your equity funds will be higher than at the start of the year.

Investors can tweak their portfolio through a process known as rebalancing - which restores the asset class weightage to the original level of your target asset allocation.

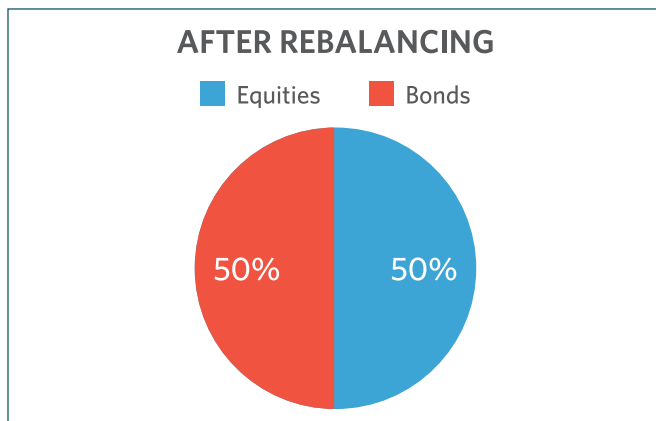
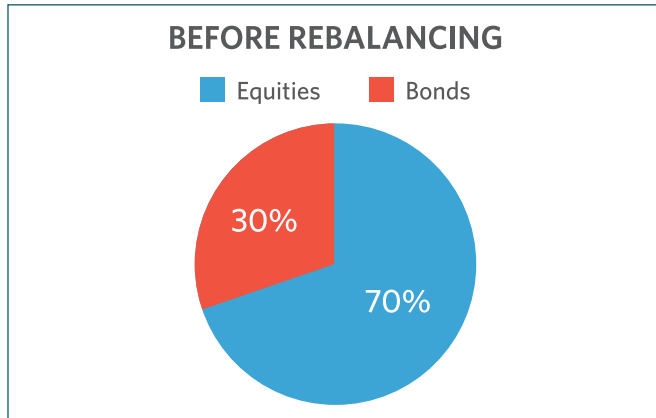
For example, let's assume that an investor with a moderate risk-appetite has decided to opt for a balanced portfolio allocation with 50% in equities and 50% in bonds at the start of 2022.

During the year, the equity market appreciates at a much faster pace than bonds causing your portfolio to drift from its target asset allocation to now reach 70% equities and 30% bonds.

This could render your portfolio riskier than originally intended from a moderate level of risk, as equities are riskier compared to fixed income. Moreover, such an aggressive allocation would not be compatible with your risk-profile as

a balanced investor, who desires a moderate level of risk on their investments.

Thus, rebalancing helps restore the portfolio back to its target allocation and ensure that your current asset allocation appropriately reflects your investment objectives and risk appetite.



How Often Should you Rebalance?

Investors are advised to review their portfolio quarterly and rebalance it on an annual basis. This is especially pertinent in a market that is characterised by strong performance from a particular asset class or region.

It is worth noting that you do not need to rebalance after each portfolio review, as rebalancing would only be needed if it deviates materially from your target asset allocation.

Citing the example above, you could for instance set a +10/-10 deviations from your target allocation of 50% equities and 50% bonds. If either the equity/bond portion reaches above 60% or below 40%, this would trigger portfolio action for you to rebalance.

Failure to do so, could result in a portfolio mismatch with that of your long-term objectives, as well as an under-diversified portfolio and higher portfolio risk.

Staying on Balance

It may be tempting for you to stick with the 'winners' in your portfolio and to avoid rebalancing at all. After all if a particular investment has done well, why shouldn't it rally further?

However, rebalancing is a useful reminder for you to stick to your long-term objectives and in constructing a truly diversified portfolio that is able to weather multiple market cycles.

Irrespective of market performance, an investor should always take a longer-term view and avoid chasing market-highs or performance. A common mistake made by investor during the rebalancing process is often the discipline. Whilst rebalancing is really a simple process of resetting your allocation, investors often get side-tracked by market noise or their emotions.

Rebalancing helps mitigate these impulsive shifts and ensure you remain disciplined to maintain your target allocation without relying on blind optimism or a single asset class for returns.

Book an Appointment

Speak to us today on how we can help recalibrate your portfolio so that you stay on track. Scan the QR code or visit the link below.

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