

Rebalancing Portfolio

What is rebalancing?

- Adjusting the mix of asset classes to match your target allocation.
- This can be done in multiple ways
 - ◆ Sell higher performing assets and invest those funds in lower performing assets
 - ◆ Invest new funds in lower performing assets only

Why rebalance?

- Minimize the risk.
- Other reasons
 - ◆ Started with 50:50 allocation and now you are ready to take more/less risk
 - ◆ One of the assets is performing way better than others
 - ◆ Adjust allocation according to your age

When is the good time to rebalance?

- Based on predefined thresholds or bands
 - ◆ e.g. +/- 10% bands
- Specific time of the year
 - ◆ End of year, on tax day or on your birthday
 - ◆ Better option for those who find it difficult to sell winners to buy losers
- When additional funds are available
 - ◆ Quarterly dividends, bonus payment
 - ◆ Better option if you have fewer tax-deferred or tax-free accounts or space

Summary/Learning

- No good time to rebalance, so just come up with a date and do it!
 - ◆ I waited too long for good opportunity to rebalance from initial AA of 50:50
- Stick to your date or band irrespective of market's performance
 - ◆ I accumulated bunch of money waiting for the market to go down!
- Having mix of tax-free or tax-deferred and taxable accounts makes it easy
 - ◆ It also helps to have bonds (e.g.muni funds) in taxable
- Returns do not differ meaningfully from one rebalancing strategy to another
- Consider costs when rebalancing in taxable accounts