Gains are a Good Thing

So Why Rebalance My Portfolio?

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DETERMINING A STRATEGIC ASSET ALLOCATION within a portfolio is arguably the most important aspect of managing your investments. However sticking with that allocation and consistently placing trades — buys and sells — to ensure the portfolio meets your objectives and adheres to the proper risk profile is equally as critical, if not more important, to your overall performance and long-term returns. Allocation involves determining not only what assets and funds should be held but also what percentage of each should be maintained. Sustaining that allocation over time through rebalancing is vital to keeping your portfolio in sync with your investment goals.

Account rebalancing is necessary because portfolios naturally deviate from their intended allocations. You become more aggressive or conversely more conservative as capital markets and economic climates shift. Market movement in either direction will change the overall risk profile of your portfolio and result in you being more or less exposed to volatility than you likely intended at inception.

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For example, large capitalization domestic equities — that is, stocks in major corporations — make up 17 percent of a hypothetical portfolio. But given recent market performance, that weighting has grown to 29 percent. During the same period, fixed income and bond values fell, and their portion of the portfolio has slipped from an initial 45 percent allocation to less than 38 percent. That portfolio has become significantly more aggressive and concentrated in equity-based holdings, increasing risk exposure beyond the initial settings or targets that were hopefully discussed and agreed upon by a client and advisor. The danger is that the portfolio will remain “unbalanced” until trades are placed to return it to the proper allocation and weighting.

The ability to reallocate and strategically shift holdings within various asset classes has become increasingly more important today in light of our ever-changing global economy. Your portfolio should be rebalanced regularly based on forward-looking capital market assumptions; past market performance should have little or no impact on how your current and future portfolios are constructed. It’s safe to say that the next 10 years will not be like the last 10 years.

Most taxable accounts will have realized gains and losses with each rebalance as assets are bought and sold. As these capital gains are recognized they will also be subject to taxation. As asset managers and comprehensive wealth advisors, our priority at HBKS® is to grow your balance with tax-wise investments while ensuring you have proper volatility controls in place. Periodic portfolio rebalancing is an important way we add value and help you adhere to your respective investment profile.

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Properly executed tax-sensitive investment planning minimizes realized gains — and therefore reduces the resulting taxes. Tax planning should be a part of every rebalancing conversation, but secondary to ensuring an allocation that's designed and maintained to meet your objectives.

Periodic rebalancing is just another benefit of having our Asset Management Group oversee your globally diversified investment portfolio. It's also something advisors routinely discuss because our client risk profiles, goals and portfolio needs all change over time and rebalancing helps you and your planning team keep the three aligned.

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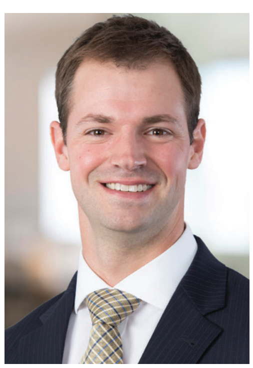

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Craig Slaubaugh is a financial advisor in the Pittsburgh, Pennsylvania, office of HBKS® Wealth Advisors. Craig joined HBKS® in 2018 after working as a relationship manager with Key Investment Services and PNC Investments. Prior to that he spent several years splitting time as an advisor with Lincoln Investment, dealing primarily with defined benefit plans and teaching economics and global affairs courses. Craig specializes in comprehensive financial planning and investment advisory services.

Craig earned both his bachelor's and master's degrees from Gannon University.