

Rebalancing

A tune-up for your portfolio

Special Report



From your body to your car, regular maintenance can help you avoid future problems. You visit your doctor annually to keep yourself in peak physical condition, just as you take your car in for a tune-up to keep it running smoothly. Your investment portfolio needs the same regular attention. Ignoring it could put your financial future in jeopardy.

Regular maintenance needed

So, you've finally got your investment portfolio in order. You've determined your risk tolerance, your long-term goals and developed an asset allocation strategy that's right for you. You're making regular contributions to your employer-sponsored retirement plan and other personal investments. You can check off retirement planning from your to-do list. Right? Not quite.

Just as your weight fluctuates, so too, can your portfolio. As the markets change, the value of each security in your portfolio will increase or decrease at a different rate of return – changing the overall weightings of your investments. The result: Your asset allocation strategy may no longer match your risk tolerance.

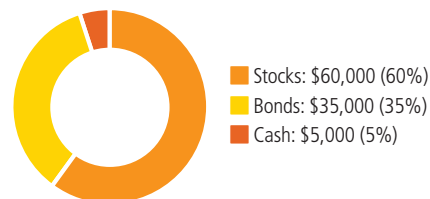
Watching your weight

To stay true to your original asset allocation strategy, you need to periodically review the value of your investments and rebalance them to ensure they stay in line with your risk tolerance and timeline. Think of rebalancing as getting portions of your portfolio back to their ideal weight.

A simple example on the need for rebalancing:

Portfolio – Original: \$100,000

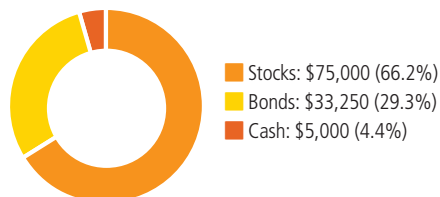
Asset Allocation:



One year later, a boom in the equity markets causes your stocks to rise 25%, while your bonds have fallen 5%. Your portfolio's asset allocation now looks like this:

Portfolio – One Year Later: \$113,250

Asset Allocation:



In just one year, you're up 13.25%. That's good. So what's the problem? The problem is that as your investment grew, it moved away from your ideal asset allocation strategy. Your portfolio is now weighted even higher in stocks, possibly exposing you to more risk than you originally intended.

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Tuning up your portfolio

To rebalance back to your original asset allocation strategy, you'll need to sell off some of your stock and invest the profits in bonds and cash until your original percentage weightings are achieved. Or you can invest new money into your portfolio to bring the percentages back to the right levels.

Using this example, many investors might see the sharp rise in their investment and choose to leave their portfolio alone. But deviating from your original strategy is risky. If stocks should fall rapidly – as happened during the stock market decline of 2000 – you would have lost a greater percentage of your investment than if you rebalanced and stayed true to your asset allocation strategy.

When to rebalance

Many financial experts recommend rebalancing at regular time intervals, others recommend rebalancing when your asset mix drifts 5% or more away from your allocation strategy. Rebalancing might also be considered if your personal goals have changed. As you near retirement, for example, your risk tolerance will likely become more conservative, so you may want to rebalance to alter your investment strategy. Please note, rebalancing does not ensure a profit or protect against a loss in a declining market, but it will help you stick to a strategy that you believe is appropriate for you when markets shift and your goals change.

Note that some retirement plans offer an option for automatic rebalancing, which helps many investors to know that their asset allocation strategy could be maintained.

Stick to your strategy

Rebalancing is a tool that can help you stick to a strategy when markets shift or your goals change. Your Voya representative can help you learn more about rebalancing and developing an asset allocation strategy that's right for you.



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