Financial Planning

Time for a Portfolio Tune Up

You may feel that once you've purchased securities in your portfolio, the process is completed. In some cases, you may decide to review your portfolio when stock market volatility has you looking for safe harbor. But doing so ignores an important step — evaluating your portfolio through periodic reviews.

When you purchase a car, it requires scheduled maintenance, including oil changes and tune-ups, to ensure that it continues to work reliably. Plus, as your needs change, you may have to buy a different car to meet those needs. Your investment portfolio really is not much different. It requires regular check-ups, and sometimes requires adjustments to reflect your evolving circumstances and/or market shifts and opportunities. Now is the perfect time to re-evaluate your investment portfolio. When you do, you may want to consider the following:

Review Asset Allocation Strategy – As you may know, the three main asset classes – stocks, bonds and cash – are often classified as higher-risk, lower-risk and lowest-risk investments, respectively. The asset allocation that you put into place when your portfolio was created may not be optimal for you any longer. Shifts in the market environment may present opportunities or threats. Changes in your life may also require you to adjust the goals that shape your investment choices. All of these are considerations as you revisit your long-term financial goals and evaluate asset allocation selections.

Reassess Diversification – When you diversify, you combine different asset classes in proportions that fit your investment goals and objectives, risk tolerance, and investment horizon (the amount of time you have to invest before you need to access your money). Few of us can predict which asset class will perform best in any given year. As a result, historically, investing in several types of asset classes can help you avoid overexposure to the risks of any particular asset or security, while also reducing the overall volatility of your portfolio. In order to prudently diversify, we suggest as a general guideline that no more than 15 percent of a portfolio be invested in any one security and no more than 20 percent in any one sector (a sector is an industry or market sharing common characteristics and a different risk profile). Conversely, we suggest the minimum position size should be one-to-five percent in order to avoid too many fragmentary positions that can make managing the portfolio more difficult.

Consider Rebalancing – Market fluctuations may have caused your portfolio to move significantly from the strategic asset allocation model chosen. In fact, market moves may have caused your holdings in one stock or in a sector group of stocks to rise or fall in value, which may have triggered a need to rebalance your portfolio. If this is the case, you may want to consider selling over-weighted positions and buying securities representing an under-weighted asset class. Of course, for taxable accounts, it is important to consider the tax ramifications.

In a year that has seen significant volatility and turmoil in the financial markets a regular portfolio tune up can help keep your investments on target. As you do so, the following questions may help guide your assessment:

- Are you seeking growth, income or a combination of both?
- What are your cash flow needs?
- Are you willing to assume risk commensurate with the market, more than the market or less than the market?
- How important is capital preservation?
- How important is low volatility?
- Are you concerned about inflation protection?
- Do you have significant life events for which you know you need to plan?
- Do you have certain investment limitations?

Speak with your financial advisor to discuss your findings and answers to the questions above. In addition, you may want to request the following two reports – Strategic Asset Allocation Models and The Importance of Diversification: Annual Returns of Various Asset Classes. Both are good resources for you during this process. Your financial advisor can also help you with this process by using the MoneyGuidePro financial planning tool. ■