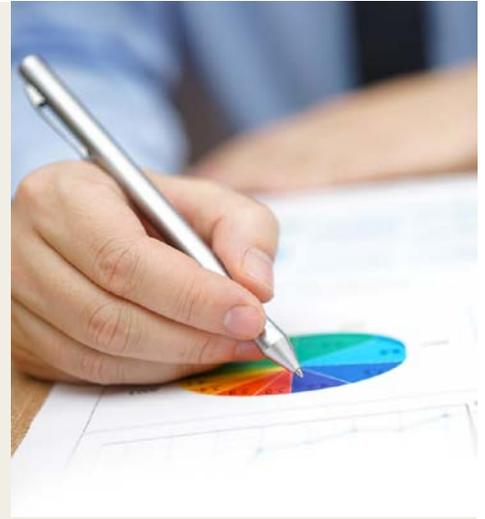


# Rebalancing

Determining the right asset allocation for your holdings is an important first step in investing, but did you know your allocation can fluctuate? Market performance impacts the weighting of your portfolio and, over time, your investment strategy may change. Rebalancing is the process of realigning the weightings within your portfolio in order to maintain your desired level of asset allocation.



It is important to take time to review your investment portfolio periodically to make sure it still reflects your current circumstances and your investment goals and objectives. Roller-coaster-like stock market fluctuations make this exercise even more pressing, as volatility can affect your asset allocation and your portfolio diversification. Let's take a look at both of these issues.

## Asset Allocation & Diversification: The Big Picture

Typically, asset allocation refers to how your holdings are spread among the different asset classes, which include stocks, bonds, cash, and other investment alternatives. When you began to invest, you may have visited with a financial professional and determined what percentage of your portfolio would be dedicated to each asset class. These decisions were probably largely shaped

by your investment goals and objectives, how long you expected to stay in the market, your tolerance for risk, and possibly other factors.

However, over the past year your personal circumstances may have changed, or market moves may have altered the percentages of your portfolio dedicated to each asset class. How might that happen? Let's look at a hypothetical situation:

Let's say at the beginning of the year, you had a portfolio worth \$100,000. You decided to put \$60,000 or 60 percent of your holdings into stocks, you invested \$30,000 (30 percent) in bonds, and the remaining \$10,000 or 10 percent in cash.

Because the value of your assets fluctuate with the market, after a year let's assume the value of your sample portfolio is now worth \$90,000. Your stocks are now worth \$40,000, your bonds are



## Financial Planning

---

valued at \$40,000, and the cash balance remains the same. But take a look at how the percentage allocations have also changed: You now have 44 percent of your holdings allocated to stocks and bonds equally, and your cash allocation is 12 percent.

Not only do you need to look at how your holdings are allocated among the asset classes, you also need to look how your holdings are diversified across industry sectors and by individual security.

Should you find that your portfolio is not allocated as you intended it to be, you may need to rebalance your holdings to better reflect your preferred and/or needed asset allocation and diversification.

This could probably entail selling assets or securities that are over-weighted in your portfolio, and buying those that may be underweighted.

Before undertaking this project, it is important to consider the tax implications of doing so. In addition, it might be a good idea to consult with your financial professional for additional information and guidance.

In our next column, we'll cover some of the deadlines you need to be aware of as you consider rebalancing and also some strategies that might help you with Uncle Sam at tax time. ■

**IMPORTANT DISCLOSURES** The information provided is based on internal and external sources that are considered reliable; however, the accuracy of this information is not guaranteed. This piece is intended to provide accurate information regarding the subject matter discussed. It is made available with the understanding that Benjamin F. Edwards & Co. is not engaged in rendering legal, accounting or tax preparation services. Specific questions on taxes or legal matters as they relate to your individual situation should be directed to your tax or legal professional.