

**FINRA Investor Education Podcast – November 2015**  
**Is It Time to Rebalance Your Portfolio?**

PC: Hello, and welcome to another FINRA Investor Education podcast. I'm Pete Chandler.

ML: And I'm Mia Lavarada. Has it been awhile since you looked at asset allocation in your portfolio? If so, you should consider checking in to see if it's still achieving the balance you intended. If not, it may be time to rebalance, and here are four things to consider before you do.

PC: First, know what it means when we say "asset allocation." When you allocate your assets, you decide what part of your total portfolio money to invest in different asset classes. By classes, we mean things like stocks, bonds and cash. And you can usually allocate them as a percentage of your portfolio. Right now, your investments are likely already in various classes. This is a result of decisions you made either directly by purchasing individual securities or indirectly by choosing funds like mutual funds that invest in those securities. Or, if you have a retirement plan at work, your assets may have been automatically allocated when you enrolled. In any case, it may have been awhile since you reviewed your asset allocation.

ML: Second, understand what it means to rebalance your portfolio. Over time, assets can grow at different rates. This can be true even for short periods. And this means your portfolio might end up out of line with your desired asset allocation. This can happen if the market performance of one type of asset is particularly strong or particularly weak.

PC: And financial goals change. The asset allocation you chose when you were younger may no longer be right for you now. For instance, as many investors approach retirement, their goals often shift from accumulating wealth to creating a continued stream of income, or otherwise preserving their assets.

ML: Similarly, whenever you find your allocation no longer provides the balance of growth and return you want, you may want to consider adjusting your holdings by rebalancing your portfolio.

PC: There's no official timeline for when you should rebalance your portfolio, so you may want to consider if you want to do so once a year as part of an annual review of your investments. Any time can be a good time.

ML: There are some common approaches to rebalancing. One way is that you can redirect money to the lagging asset classes until they return to the percentage of your total portfolio that they held in your original allocation. Another strategy is to add new investments to the lagging asset classes, concentrating a larger percentage of your contributions on those classes. And another way is to sell off a portion of your holdings within the asset classes that are out-performing others. You may then reinvest the profits in the lagging asset classes.

- PC: All these approaches work well, but some people are not comfortable selling off investments that are doing well in order to put money into those that aren't. But remember: if you invest in the lagging classes, you'll be positioned to benefit if they turn around and begin to prosper again.
- ML: The third thing to consider as you review your asset allocation is, it pays to understand the cost of shifting assets. Keep in mind account shifting means potential sales charges and other fees. Aside from the costs you might incur, switching out of investments when the market is doing poorly means locking in your loss. If this occurs in a taxable account, you may be able to take a tax deduction, but if you are rebalancing in a retirement savings account like a 401(k), you can't take a tax deduction on capital losses. You should also know if your investments have increased in value, selling them to rebalance your portfolio in a taxable brokerage account could result in capital gains taxes.
- PC: Finally, as you build your portfolio, you may also consider including other asset classes, like real estate, to spread out your investment risk. By including different ones, you increase the probability that some of your investments will provide satisfactory returns even if others are flat or losing value. This is called diversification. To put it another way, with diversification, you're reducing the risk of major losses that can result from over-emphasizing a single asset class, however resilient you might expect that class to be.
- ML: We hope you found this podcast helpful for learning about asset allocation and rebalancing portfolios. To learn more, go to our Web site, [FINRA.org](http://FINRA.org), and be sure to share this podcast with friends and family.
- PC: Until next time, for all of us at FINRA, thanks for listening.