Promoting financial health through portfolio rebalancing.

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Today, we are discussing the importance of periodic portfolio rebalancing.

The primary goal of rebalancing is managing portfolio risk to keep your investment returns fit.

Let's take a look at your investments to make sure they are varied and contain the right amount of risk based on your needs. Living in the San Francisco Bay Area, I often run into young professionals with great jobs at companies like Google, Apple and Tesla who have virtually all their net worth tied to their employee stock. So their livelihood is with the company, and a major portion of their assets are in company stock or options. This is an example of putting all your eggs in one basket, which is way too much risk. Going back to our food analogy: They are gorging on ice cream without eating enough fruits and vegetables to keep their financial health at its optimum.

While you may not face the extreme example of Google, Tesla or Apple, you could be increasing your risk by forgetting to examine portfolio rebalancing. I refer to this as "stealth risk". Often people forego rebalancing their portfolio through simple inaction. This passivity increases their risk exposure. Without proper planning this increased risk may come at the wrong time and affect your long term goals or retirement.

An example:

Let's look at the results for 2013. The S&P 500 was up about 32%. The Barclays Bond Index was down approximately 2%.

To understand the stealth risk of your portfolio, let's assume that these results continue for another year. While many investors are very happy with their investment returns, they may be unaware of their increased risk to their portfolio.

Let's say that you have an investment portfolio with 60% allocated to stocks and 40% to bonds. We will assume the S&P 500 represents your stock and the Barclays Bond Index represents your bonds. Let's look to see what happens to your portfolio assuming that we have the same results for two years that we had for 2013.

	Stocks	Bonds	Total
Original Allocation	**60%**	**40%**	**100%**
End of Year 1	**67%**	**33%**	**100%**
End of Year 2	**73%**	**27%**	**100%**

So the result over two years is that your investment allocation mix has changed substantially. You now have substantially more stocks than bonds. You have moved away from our ideal mix. While the investment returns were excellent, your portfolio is now much more volatile, and you face substantially more risk. As you can see, the need to rebalance your investment allocation is very important to manage risk.

Thus rebalancing your portfolio to meet your goals is essential to produce the long term results that are part of your overall financial plan. Our goal is to have your investments work as hard as you do.

If you need help monitoring and rebalancing your portfolio, we are here. If you want to start today developing a financial plan that will work for you, contact us to have a complimentary meeting. If you have friends that need assistance, please share our information: 415-794-4360 or lweiss@nextfinancial.com

All the best,

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