THE Wealth REPORT

Imbalance in a portfolio typically occurs due to various shifts in the markets, industries or asset classes. If a portfolio has shifted away from its initial asset benchmark, it may be time to think about rebalancing.

FINDING YOUR BALANCE

Four things to consider when rebalancing your portfolio

Overview

When you first set up an investment, you (and your financial advisor) carefully created allocation ratios to fit your needs and chose an asset mix to match. Over time, however, those allocations may have strayed from their original benchmarks, leaving the portfolio too heavy in one asset class and underweight in others.

This imbalance can occur due to a variety of reasons. Perhaps the weight of an asset class within your portfolio shifted as assets rose and fell in value due to performance. Or maybe you sold or bought assets based on news headlines or events, skewing the portfolio away from its original allocations. In some cases, imbalance is caused after reinvesting back into high-performing assets and putting too much weight in one asset class. Finally, a portfolio may become imbalanced as the result of selling off assets for the purpose of harvesting losses.

If a portfolio has shifted away from its initial asset benchmarks, it may be time to analyze whether a rebalance is required. There are three common approaches to rebalancing: redirecting money to lagging asset classes, adding new investments to lagging asset classes or selling off a portion of holdings within outperforming asset classes (or some combination of the three).

Some Benefits of Rebalancing

No matter which method is used, rebalancing can bring a host of potential benefits, including:

- Rebalancing can renew discipline. Investing is a marathon — not a sprint. And like marathon training, investing is a practice with a long-term outlook, requiring discipline, strategy and focus. Many individuals lose sight of their discipline as their investing practice grows mundane or feels tedious. Rebalancing reminds you of the original boundaries you set for your portfolio and why you established them in the first place.

- Rebalancing can remove unnecessary risk. This is especially true when we experience a long-running bull market, during which time investors may become too heavily weighted in stocks, creating a portfolio that exceeds their risk tolerance. Rebalancing can help identify potential areas of risk before they become a problem.

- Rebalancing can create additional return potential. On the flip side of reducing unnecessary risk, rebalancing may also help investors identify opportunities to improve returns within the portfolio. This is especially true as markets shift and different asset classes become overperformers.

What to Consider During a Rebalance

Before shifting assets around to realign with initial allocation benchmarks, however, it may be important to consider how rebalancing might impact your portfolio. Here are four things to think about before rebalancing:

1. There are costs associated with rebalancing. Account shifting could result in potential sales charges and other fees. Can your portfolio absorb these costs at this time? If not, rebalancing may need to wait.

2. Rebalancing may produce capital gains in a taxable account. An investor may see an increase in their tax bill if capital gains result from selling off assets as part of a rebalance. However, this could potentially be offset by harvesting losses from underperforming assets in the portfolio.

3. Should the allocation benchmarks be changed? Portfolio allocations should change as people do. Many investors don't consider that their risk tolerance decreases as their age increases — and sometimes never act to reduce risk as they near retirement. Your asset allocation should be forward-looking; what worked for you in the past may no longer work for you, due to changes in your life, markets or economic environment. In some cases, you may need to change your asset allocation boundaries altogether.

4. Rebalancing shouldn't just happen by the calendar. Many investors and their advisors review portfolios for potential rebalancing around the first of the year, especially after assets have been sold to harvest losses for tax purposes. However, you shouldn't rebalance just because the calendar says it's time to do so. Instead, rebalancing should occur any time allocations have strayed a predetermined amount from their original limit. One example: You could set a personal rule to consider rebalancing any time allocations have strayed more than 5% outside the original lines.

THE Wealth REPORT

Final Thoughts

By proactively aligning your asset allocation with current circumstances, you can increase the likelihood of reaching your financial goals. If you haven't done so recently, we recommend talking with your financial advisor to make sure your portfolio is balanced and well-positioned to take advantage of opportunities in the second half of 2023.

This content is provided for informational purposes. It is not intended to be used as the sole basis for financial decisions, nor should it be construed as advice designed to meet the particular needs of an individual's situation. None of the information contained herein shall constitute an offer to sell or solicit any offer to buy a security. Individuals are encouraged to consult with a qualified professional before making any decisions about their personal situation. The information and opinions contained herein provided by third parties have been obtained from sources believed to be reliable, but accuracy and completeness cannot be guaranteed by AE Wealth Management. Neither AEWM nor the firm providing you with this report are affiliated with or endorsed by the U.S. government or any governmental agency. Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. AE Wealth Management, LLC ("AEWM") is an SEC Registered Investment Adviser (RIA) located in Topeka, Kansas. Registration does not denote any level of skill or qualification. The advisory firm providing you this report is an independent financial services firm and is not an affiliate company of AE Wealth Management, LLC. AEWM works with a variety of independent advisors. Some of the advisors are Investment Adviser Representatives (IARs) who provide investment advisory services through AEWM. Some of the advisors are Registered Investment Advisers providing investment advisory services that incorporate some of the products available through AEWM. Information regarding the RIA offering the investment advisory services can be found at http://brokercheck.finra.org.

7/23-2971765