Tips for Retooling Your Portfolio

Like a closet that isn't reorganized from time to time, a portfolio that isn't reviewed regularly can leave you feeling like the pieces no longer fit. Last year, for example, stocks, as measured by the S&P 500 had annualized returns of 13.69%.[1] U.S. investment grade bonds gained 5.97%, while international stocks declined -4.49%.[1] Given this diverse composite of returns, a portfolio than began 2014 carefully allocated between stocks and bonds could now have shifted away from your intended asset allocation.[2]

Getting your portfolio back on track is critical because studies have confirmed that asset allocation is the single most important determinant of investment success.

Restoring Balance

Restoring your portfolio to its original (and intended) mix can be done in a number of ways:

- Simply shift money from your over-allocated funds to other assets.
- Direct any new investment money into under-allocated assets.
- Sell shares of an over-allocated asset to help restore balance.

Investment performance is just one factor that might prompt you to adjust your portfolio. When undertaking your "rebalancing act," ask yourself the following questions to determine whether your portfolio needs a nip and a tuck or, perhaps, a major overhaul:

Has my life situation changed significantly during the past year? A change in marital status, the birth of a child, the last child leaving home, retirement, purchase or sale of a home, or a job change all signal that your portfolio may need retooling.

Has the value of my home or business changed? A sudden appreciation or drop in value can leave you in the position of being over- or underexposed to one asset class.

Will my spending decrease in the near future? If mortgage or college tuition payments are winding down, this could be the ideal time to "pay yourself" by stepping up investments.

When was the last time I rebalanced my portfolio? If you can't remember, or if your last portfolio review took place more than a year ago, it is definitely time for a checkup.

An Easy Fix for "Portfolio Drift"

One of the easiest ways to keep your portfolio on track is to enroll in an automatic investment plan. By putting aside a set amount of money at regular intervals, you buy more shares when prices drop and fewer when prices rise. Over time, this disciplined approach to investing may make you better able to maintain your portfolio's balance through the market's short-term ups and downs.[3]

Source/Disclaimer:

[1]DST Systems, Inc.; Standard & Poor's; Barclays Capital; Morgan Stanley Capital International MSCI EAFE®Index. U.S. stocks are represented by the S&P 500, an unmanaged index that is generally considered representative of the U.S. stock market. Bonds are represented by the Barclays Aggregate Bond Index, a broad-based benchmark that measures the general performance of the investment grade U.S. bond market. Foreign stocks are represented by the MSCI EAFE®(Europe, Australia, and Far East) index, an unmanaged index generally considered representative of developed international markets. Performance is for the one-year period ended December 31, 2014. Past performance is no guarantee of future results. It is not possible to invest directly in any index. Investing in stocks involves risks, including loss of principal. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations, and may not be suitable for all investors.

[2]Asset allocation does not assure a profit or protect against a loss.

[3]Periodic investment plans do not assure a profit nor protect against loss in any markets. You should consider your financial ability to continue purchasing shares through periods of high and low prices.

Required Attribution