TD Wealth

Wealth Insights

TD Wealth Private Investment Advice

Monthly Perspectives From The Daley Group Wealth Management

Portfolio Check-Up: Why We Rebalance Portfolios

Market volatility often prompts investors to rethink their perspective on risk. Reacting to short-term market fluctuations is not usually advised; instead, we continue to focus on the importance of having a plan in place with a view for the longer-term, and rebalancing a portfolio where required. Here is some insight on why rebalancing is important.

Rebalancing an investment portfolio involves adjusting the proportion of asset types to ensure it reflects your continuing goals. This is done because, over time, the value of the securities that make up your portfolio can rise and fall at different rates. This will change the asset allocation, which has been established to reflect your personal risk tolerance, goals and time horizon.

Often, rebalancing involves trimming winners to get back to the target asset allocation level. For example, if the value of a certain holding has increased so much over time that it makes up a disproportionate part of the overall portfolio, it may be opportune to consider taking some gains to restore balance in the allocation.

Rebalancing may also be necessary if your investment goals or your risk profile change over time. Consider that as you reach the retirement age, you are likely to have a lower risk tolerance as your time horizon lessens and you look to provide income to support your retirement lifestyle.

Rebalancing helps to ensure that a portfolio doesn't become riskier — or less risky — than you intended when we first set up your allocations.

Helping to Avoid Timing the Markets

One of the virtues of rebalancing is that it can help to take the emotion out of the investing decision-making process. The rebalancing decision should occur when the portfolio's balance is not in check, and not in response to the markets being under pressure. This can help investors to better achieve the objective of selling high.

Other Benefits: Even More Important for Retirees

For many younger investors, rebalancing may be less of a priority often due to higher risk tolerance levels and the advantage of a longer time horizon. However, for retirees, rebalancing can bring multiple additional benefits.

By maintaining a portfolio's risk and allocation levels on an ongoing basis, it can add an element of volatility control. This may be especially valuable to retirees on a fixed income, who often have no choice but to draw on portfolios for living expenses, regardless of the economic environment. Rebalancing can help to assist with cash flow sourcing. In this age of ultra-low yields, rebalancing can help to make up any shortfalls from income-generating investments, or can create reserves by trimming winning equity positions and adding them to bond holdings to be used when needed.

Rebalancing may be a way to meet the minimum annual withdrawal requirements of the Registered Retirement Income Fund. For those who do not need excess funds, rebalancing can serve as the source of funds for charitable giving, which can support giving strategies, while also providing certain potential tax benefits. Publicly-listed securities with appreciated positions can be donated to eliminate the taxes on the appreciation, as well as to benefit from a tax deduction on the value of contributed shares. Consider the support of a tax professional to evaluate the tax-planning opportunities relating to your particular situation.

We Are Here to Assist

Rebalancing is just one of the important techniques we use to help manage risk in your portfolio. If you have questions about how this approach can support your investing program, please don't hesitate to contact us.

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