REVIEW YOUR PORTFOLIO ON A REGULAR BASIS

PORTFOLIO REBALANCING, HOWEVER, SHOULD BE NEED-BASED AND NOT A REGULAR PROCESS

It's the duty of every investor to keep a close watch on his/her portfolio, review its performance on a regular basis and if needed rebalance it. Rebalancing becomes necessary when one finds that the portfolio is not performing as per the investor's financial goals. With Sebi now embarking on a major overhaul of mutual fund schemes which may lead to some changes in fund management strategy, a review of one's portfolio, and then if needed a rebalancing may become necessary.

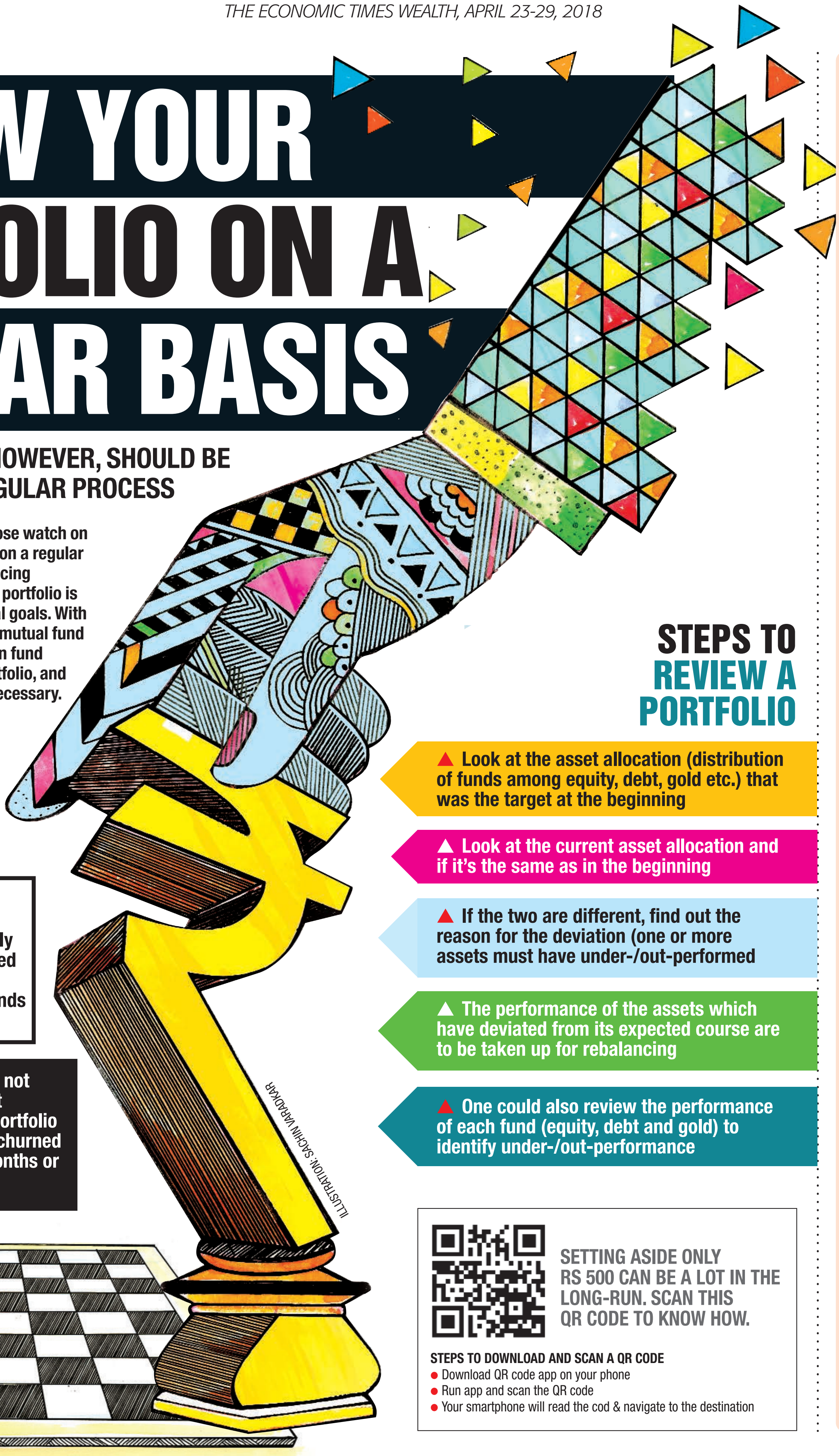
ILLUSTRATION: SACHIN VARADKAR

STEPS TO REBALANCE A PORTFOLIO

- Rebalancing is an act of bringing back the asset allocation ratio to its planned path
- At times even some of the out-performing funds are sold and some other funds which have the potential to outperform in the future are bought
- At times those funds which did badly may be required to be sold and some other funds are bought
- Caveat: Do not rebalance just because the portfolio has not been churned for several months or a few years

STEPS TO REVIEW A PORTFOLIO

- Look at the asset allocation (distribution of funds among equity, debt, gold etc.) that was the target at the beginning
- Look at the current asset allocation and if it's the same as in the beginning
- If the two are different, find out the reason for the deviation (one or more assets must have under-/out-performed
- The performance of the assets which have deviated from its expected course are to be taken up for rebalancing
- One could also review the performance of each fund (equity, debt and gold) to identify under-/out-performance

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GURU SPEAK

HOW REVIEWING & REBALANCING HELP?


>> Hardik Joshi
Founder, Shrey Advisory Services

We create financial portfolio to achieve our financial goals, and as an investor it's important to constantly review it and rebalance. It helps to realign our investments with financial goals. Market has its own nature to rise and fall. Due to this changes our portfolio sometimes become too risky or conservative. Interest rate movement, inflation rate and performance of portfolio since last review are some of the factors one should consider while reviewing a portfolio.

It requires you to buy what has done relatively poorly (at relatively low valuations) and sell what has done relatively well (at relatively high valuations). Put another way, rebalancing investments involves bringing a portfolio that has deviated from investment objective or target asset allocation back into line

MAJOR BENEFITS OF REBALANCING:

Profit booking: Rebalancing locks in gains on appreciated investments. You don't actually make money on paper gains. You make money when you sell. It's as hard to pick a top or sell point for an investment as it is to pick a bottom or buy point.

Risk management: Rebalancing helps reduce risk by maintaining original investment objective and risk profile. After 2008 crisis, many investors have used alternatives for downside protection in their portfolios. Another way to achieve such protection is to take some risk off the table when the markets are up and add risk when the markets are down.

To remember: Because selling assets can generate capital gains and losses, taxes are a big consideration in the rebalancing decision. One should also consider expenses and other charges before rebalancing a portfolio.