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Signature Estate & Investment Advisors LLC
Mark E. Copeland, CFP®, Senior Partner

"What method should I use when rebalancing my portfolio?"

By Mark E. Copeland

It is almost impossible to keep your portfolio focused on your objectives unless you continually review and rebalance the distribution of your investments across and within asset classes. So if you are asking this question, clearly you already understand the importance of rebalancing, particularly when markets are as volatile as they are today. The larger issue is, how do you go about doing it?

For various reasons, including marketplace forces that are beyond your control, your portfolio can drift or deviate from your key investment objectives. But whether that deviation is sudden or gradual, not rebalancing to reflect those marketplace changes can lead to overexposure to risk or result in underperformance.

For example, in 2013 the markets were complacent, as the continued growth of equity markets challenged the idea of any need for portfolio rebalancing. But by late January 2014, the equity markets were down 6 percent and bonds were up 1.5 percent. In just one month, many portfolios had become over-weighted in stocks while fixed-income investments suddenly made sense. It follows then that managing asset allocation effectively, so it achieves your objectives, requires continual review and rebalancing of assets.

TWO STYLES OF ASSET ALLOCATION MANAGEMENT: STRATEGIC AND TACTICAL

Strategic asset allocation is the more formal approach, in the sense that it schedules reviews of asset distribution at consistent intervals: quarterly, biannually and sometimes annually. Investors who favor this approach tend to like a more traditional buy-and-hold approach. Still, even an annual review can and should result in a rebalancing to reflect changes in objectives or the marketplace over the past 12 months.

In contrast, tactical asset allocation is a less formal, more active management approach. Reviews are not scheduled but ongoing, creating a more opportunistic approach. Rebalancing is employed to take advantage of real-time changes in asset classes that make them more or less attractive as investments. Allocations are shifted away or toward an asset class based on its potential to achieve the portfolio's overall objectives.

To illustrate: With a tactical asset allocation approach, portfolios that were loaded up with equities throughout 2013, and ended with an imbalance early in 2014, would quickly rebalance away from equities and toward fixed income to reflect the market change. Practitioners of strategic asset allocation, doing a quarterly review in March 2014, might initiate a rebalance or hold on to those equities until the market tilted their way again.

The best approach is to avoid asset imbalances in the first place. For example, when stocks are hot, do not sell off your high-quality bonds, because they are inversely correlated to the stock market. That is, when stocks go down, bonds go up. Limiting correlated investments within asset classes can avoid another type of imbalance.

Let's say a portfolio's stock allocation in 2014 includes half a dozen automotive companies because 2013 was a banner year for car sales. If that category softens in 2014, the portfolio's auto stocks will drop at the same time. If the imbalance were in social media, or software, or solar, etc., it would pose the same risk. To avoid this kind of exposure, strive for a non-correlated stock or bond mix. That means investments in a variety of categories so that if one category stumbles, it has a minimal negative impact on the portfolio overall.

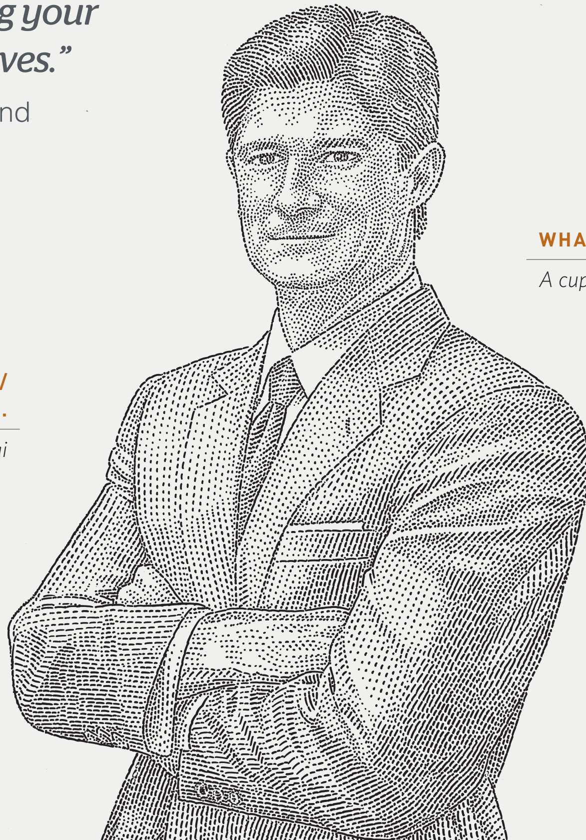
In sum, whatever allocation method you prefer, the most important thing is to rebalance when your asset allocation deviates from achieving your overall objectives.

"The most important thing is to rebalance when your asset allocation deviates from achieving your overall objectives."

—Mark E. Copeland

How to reach Mark E. Copeland

Please call my office at 800.472.1066 to schedule a meeting, either over the telephone or face to face.



WHAT'S ON MY DESK...

A cup of black coffee

MY FAVORITE ESCAPE/ VACATION SPOT...

Hanalei Bay, Kauai

MY HOBBIES ARE...

Coaching my children's sports teams, golfing and traveling

About Mark E. Copeland

Mark E. Copeland has been in the financial services industry since 1987 and is one of the four founding partners of SEIA. Fewer than 10 years after the company's inception, SEIA reached the milestone of $1 billion in assets under management. Mr. Copeland graduated from the University of California–Los Angeles, with a degree in political science and is a certified financial planner professional. His emphasis is in investment planning and wealth management for affluent individuals, athletes and corporations. He is a frequent speaker on the subjects of asset management, retirement plan distribution methods, and estate preservation. An Orange County native, he resides in Tustin, Calif., with his wife, Kathy, and their four children.

Assets Under Management
$419 million
$3.7 billion (firm, as of 12/31/13)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
$500,000 (investment services)
$5 million (Private Client Group)

Largest Client Net Worth $100 million+

Financial Services Experience 23 years

Website www.seia.com

Compensation Method
Asset-based, fixed and hourly fees

Primary Custodians for Investor Assets
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Professional Services Provided
Estate, retirement, corporate benefit, income tax and insurance planning; investment advisory and money management services

Association Memberships
National Association of Insurance and Financial Advisors, Financial Services Institute, Financial Planning Association

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