

INVESTMENT INSIGHTS

Successful Rebalancing

The Importance of Rebalancing

Rebalancing is the process of adjusting your portfolio to maintain your desired asset allocation, ensuring your investments align with your risk tolerance and financial goals.

Why Rebalancing Matters

Over time, market fluctuations can cause your asset allocation to drift. Rebalancing ensures that no single asset class becomes overexposed, helping manage risk and preserve diversification.

When to Rebalance

Rebalance your portfolio on a regular schedule (e.g., annually or semi-annually) or when your asset allocation deviates significantly from your target due to market changes.

Rebalancing Strategies

Common strategies include calendar-based rebalancing (e.g., annually) or threshold-based rebalancing (rebalancing when an asset class deviates by a certain percentage).

Tax Efficiency in Rebalancing

Be mindful of taxes when rebalancing, especially in taxable accounts. Utilize tax-advantaged accounts like RRSPs or TFSA's to minimize tax impact from capital gains and dividends.

The Role of Dividends and Contributions

Use new contributions, dividends, or interest payments to rebalance your portfolio, allowing you to avoid selling investments and incurring taxes or trading fees.

Avoiding Over-Rebalancing

Frequent rebalancing can lead to unnecessary trading costs and taxes. Stick to a disciplined rebalancing schedule to avoid chasing short-term market movements.

Rebalancing During Market Volatility

Rebalancing during periods of market volatility can be especially important. By buying underperforming assets (e.g., equities during a market dip), you can enhance long-term returns.

Psychology of Rebalancing

Many investors hesitate to rebalance when markets are down, fearing further losses. A disciplined approach ensures that emotions don't dictate investment decisions, maintaining a long-term focus.

Institutional Rebalancing Practices

Institutions rebalance their portfolios systematically and based on clear policies, ensuring that risk is managed across large asset pools. Individual investors can adopt similar practices to improve consistency and long-term outcomes.