

Money 101

12.25 - How to rebalance a multi-fund portfolio

In this example:

BEFORE YOU INVEST

#1	Decide on your stock/bond diversification percentages and the number of funds you want in your portfolio	60, 25, 15%
#2	Decide on how much \$\$\$ you want to invest	\$100
#3	Purchase the funds so you get the proper allocation	10% from Target
#4	Set a low high trigger point at which you will rebalance	
#5	Decide how often you will review and rebalance - usually every six months is a good goal	
#6	When rebalancing - sell those above the high range, buy those below the low range	
#7	If this is not a retirement account, but a taxable life enhancement account, remember you will get a 1099 for any trade capital gains!	

INITIAL INVESTMENT

Invest	\$	100.00	Acceptable range (usually 10% from Low High)	
Stock US	60%	\$ 60.00	54%	66%
Stock Intl	25%	\$ 25.00	23%	28%
Bond	15%	\$ 15.00	14%	17%
	100%	\$ 100.00	90%	110%

WHEN ITS TIME TO REBALANCE

Find the current market value of your funds - compare the diversification ratio to the low-high tolerance

Stock US	70%	\$ 80.00	rose above high tolerance of 66%
Stock Intl	13%	\$ 15.00	fell below low tolerance pf 23%
Bond	17%	\$ 20.00	17% is within range - but it is close to high
	100%	\$ 115.00	

OPTION 1 - rebalance only the two funds that are out of range - as follows:

		Existing	Changes	New	New
Stock US	SELL	\$ 80.00	\$ (11.00)	\$ 69.00	60%
Stock Intl	BUY	\$ 15.00	\$ 13.75	\$ 28.75	25%
Bond	SELL	\$ 20.00	\$ (2.75)	\$ 17.25	15%
		\$ 115.00	\$ (0.00)	\$ 115.00	100%

OPTION 2 - rebalance all three (all) funds to hit exact targets, as follows:

		Existing	Changes	New	New
Stock US	SELL	\$ 80.00	\$ (11.00)	\$ 69.00	60%
Stock Intl	BUY	\$ 15.00	\$ 11.00	\$ 26.00	23%
Bond		\$ 20.00		\$ 20.00	17%
		\$ 115.00	\$ -	\$ 115.00	100%