Does Portfolio Rebalancing Work? Yes, Even in Bear Markets

A bear market can sometimes throw your finely tuned asset-allocation mix out of whack. As stocks lag, your bond portfolio may start to outperform. Next thing you know, your "ideal" 70%/30% asset mix might be drifting toward a 60%/40% or even a 50%/50% split, and your actual mix no longer matches your risk profile.

You should consider adopting a portfolio rebalancing strategy—even during down markets when it's tempting to let your "winners" keep growing while your "losers" are taking their lumps. That's because rebalancing helps you buy low and sell high—an investing adage that's easy to say and hard to do.

The chart below illustrates hypothetical outcomes for buying and holding vs. having two alternative rebalancing strategies.

Bottom line: Rebalancing can be a helpful investment discipline, whether you do it annually or use a rules-based system to rebalance only when stocks decline by a certain amount.

Doing the Math: Buy and Hold vs. Having a Deliberate Rebalancing Strategy

	Buy and Hold (No Rebalancing)			Rebalance Annually			Portfolio Rebalanced to 70%/30% Only After 20% Drop*		
Date	Stocks %	Bonds %	Investment Value	Stocks %	Bonds %	Investment Value	Stocks %	Bonds %	Investment Value
1/1/1998	70	30	$100,000	70	30	$100,000	70	30	$100,000
12/31/1998	73	27	$122,611	73	27	$122,611	73	27	$122,611
12/31/1999	77	23	$141,282	74	26	$140,368	77	23	$141,282
12/29/2000	73	27	$135,123	66	34	$136,318	73	27	$135,123
12/31/2001	69	31	$126,401	65	35	$128,430	68	32	$126,450
12/31/2002	61	39	$111,131	62	38	$112,512	68	32	$110,675
12/31/2003	66	34	$132,400	74	26	$136,489	73	27	$133,752
12/31/2004	67	33	$143,868	71	29	$148,663	74	26	$145,904
12/30/2005	68	32	$149,770	71	29	$154,857	74	26	$152,119
12/29/2006	70	30	$167,922	72	28	$173,992	76	24	$171,648
12/31/2007	70	30	$177,885	70	30	$184,319	76	24	$181,681
12/31/2008	58	42	$134,707	58	42	$139,481	62	38	$134,219
12/31/2009	62	38	$158,776	74	26	$167,802	77	23	$166,146
12/31/2010	64	36	$177,602	72	28	$188,788	78	22	$187,927
12/30/2011	63	37	$185,000	69	31	$196,020	77	23	$194,221
12/31/2012	65	35	$206,514	72	28	$220,458	79	21	$220,144
12/31/2013	72	28	$248,783	76	24	$269,101	84	16	$275,749
12/31/2014	73	27	$277,424	71	29	$299,702	85	15	$310,044
12/31/2015	73	27	$280,644	70	30	$303,100	85	15	$313,940
12/30/2016	75	25	$307,254	72	28	$330,883	86	14	$347,053
12/29/2017	78	22	$360,313	73	27	$384,964	88	12	$413,881
12/31/2018	77	23	$348,004	69	31	$373,163	87	13	$397,959
12/31/2019	80	20	$439,504	74	26	$465,168	89	11	$511,739
12/31/2020	82	18	$510,967	72	28	$535,553	77	23	$567,441
12/31/2021	85	15	$629,580	75	25	$640,689	82	18	$691,615
12/31/2022	85	15	**$520,217**	69	31	**$534,459**	71	29	**$570,275**

Talk to your financial professional about the benefits of a portfolio rebalancing strategy.

* This hypothetical investor rebalanced the portfolio after 20% equity drops on 3/12/01, 7/10/02, 7/9/08, 2/27/09, 3/12/20, and 6/13/22.

Past performance does not guarantee future results. Indices are unmanaged and not available for direct investment. Investing involves risk, including the possible loss of principal. • Fixed income security risks include credit, liquidity, call, duration, and interest-rate risk. As interest rates rise, bond prices generally fall. The chart above is for illustrative purposes only. Market performance data is based on daily changes in the S&P 500 Index and the Bloomberg US Aggregate Bond Index. The S&P 500 Index is a market capitalization-weighted price index composed of 500 widely held common stocks. The Bloomberg US Aggregate Bond Index is composed of securities from the Bloomberg Government/Credit Bond Index, Mortgage-Backed Securities Index, Asset-Backed Securities Index, and Commercial Mortgage-Backed Securities Index. Source: Bloomberg Index Services Limited.

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