

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 three different investment strategies.

Bottom line: Rebalancing is an important 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. Two Different Rebalancing Strategies

Date	Buy and Hold (No Rebalancing)			Portfolio Rebalanced to 70%/30% Annually			Portfolio Rebalanced to 70%/30% Only After 20% Drop*		
	Stocks %	Bonds %	Investment Value	Stocks %	Bonds %	Investment Value	Stocks %	Bonds %	Investment Value
1/1/2000	70	30	\$100,000	70	30	\$100,000	70	30	\$100,000
12/29/2000	66	34	\$97,115	66	34	\$97,115	66	34	\$97,115
12/31/2001	61	39	\$92,380	65	35	\$91,495	68	32	\$91,871
12/31/2002	52	48	\$83,713	62	38	\$80,155	68	32	\$80,410
12/31/2003	57	43	\$97,884	74	26	\$97,236	73	27	\$97,176
12/31/2004	59	41	\$105,809	71	29	\$105,909	74	26	\$106,005
12/30/2005	59	41	\$109,926	71	29	\$110,322	74	26	\$110,521
12/29/2006	62	38	\$122,182	72	28	\$123,953	76	24	\$124,710
12/31/2007	62	38	\$129,580	70	30	\$131,311	76	24	\$131,999
12/31/2008	49	51	\$102,637	58	42	\$99,368	63	37	\$97,296
12/31/2009	53	47	\$119,056	74	26	\$119,544	77	23	\$120,314
12/31/2010	55	45	\$132,266	72	28	\$134,495	78	22	\$136,086
12/30/2011	54	46	\$138,443	69	31	\$139,647	77	23	\$140,644
12/31/2012	57	43	\$153,092	72	28	\$157,057	79	21	\$159,416
12/31/2013	64	36	\$179,838	76	24	\$191,711	84	16	\$199,682
12/31/2014	65	35	\$199,434	71	29	\$213,511	85	15	\$224,516
12/31/2015	66	34	\$201,619	70	30	\$215,932	85	15	\$227,337
12/30/2016	68	32	\$219,281	72	28	\$235,724	86	14	\$251,316
12/29/2017	71	29	\$254,147	73	27	\$274,253	88	12	\$299,709
12/31/2018	70	30	\$246,241	69	31	\$265,845	87	13	\$288,180
12/31/2019	74	26	\$307,006	74	26	\$331,391	89	11	\$370,572
4/30/2020	71	29	\$289,909	67	33	\$314,791	73	27	\$334,308

Talk to your financial advisor 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, 7/15/08, 2/27/09, and 3/12/20.

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